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CIS

UNEMPLOYMENT COMPENSATION ISSUES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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UNEMPLOYMENT COMPENSATION ISSUES

TUESDAY, FEBRUARY 8, 1983

House of Representatives,
Committee on Ways and Means,
Subcommittee on Public Assistance
and Unemployment Compensation,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to notice, in room B–318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[The press release announcing the hearings follow:]

[Press Release of Monday, Jan. 24, 1983]

Hon. Harold E. Ford, Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, Announces Hearings on Unemployment Compensation Issues

The Honorable Harold E. Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, today announced hearings on unemployment compensation issues and legislative proposals pertaining to the expiration of the Federal Supplemental Benefits program and the solvency of State and Federal unemployment trust funds.

These hearings are scheduled for Tuesday, February 8, 1983, and will continue on Wednesday, February 9, if necessary. They will be held in room B–318 of the Rayburn House Office Building, beginning at 10:00 a.m.

The preliminary list of specific issues to be addressed includes:

1. Expiration of the Federal Supplemental Compensation (FSC) program on March 31, 1983;
2. Linking FSC benefits to training and job programs;
3. Proposed alternative methods of providing FSC benefits, such as lump-sum payments to claimants and wage subsidies paid to employers; and
4. Provisions enacted in the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) that (a) require interest payments on Federal unemployment loans to States, and (b) allow for a "cap" on the automatic Federal credit reduction in States with overdue Federal loans.

Testimony will be received from the Administration, Members of Congress and public witnesses who have requested to be heard. Witnesses will be informed of any specific legislation or bills that should be addressed in their testimony.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be received by telephone to Harriett Lawler [telephone (202) 225-3627] by noon, Wednesday, February 2, 1983. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be limited with the understanding that a more detailed statement may be included in the printed record of the hearings. This process will afford more time for members to interrogate witnesses. In order to expedite the hearings, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 75 copies of their prepared statements to the full committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Each statement to be presented to the Subcommittee or any written statement submitted for the printed record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of comments and recommendations.

PROCEDURE TO BE FOLLOWED FOR SUBMITTING WRITTEN COMMENTS

Any interested person or organization may file a written statement for inclusion in the printed record of the hearing. Persons submitting written comments should submit at least five copies by the close of business Friday, February 25, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. Those wishing to have their written statements distributed to the press and the interested public, may submit 50 additional copies for this purpose if provided to the committee office before the hearing begins.

Chairman FORD. The Subcommittee on Public Assistance and Unemployment Compensation will come to order for the purpose of public hearings on unemployment compensation issues.

Today the Subcommittee on Public Assistance and Unemployment Compensation begins hearings on the Federal supplemental compensation program and the solvency of the State and Federal unemployment trust fund.

The FSC program, which provides up to 16 weeks of unemployment compensation benefits for individuals who have exhausted their regular and extended benefits, is due to expire on March 31, 1983. The current economic conditions demand, at the very least, an extension of this program.

According to the January employment survey, 11.4 million people were unemployed. While this represents a decline from 12 million in December, the reduction in unemployment was concentrated among the short-term jobless, those who have been unemployed for less than 5 weeks. The number of jobless workers who have been unemployed for at least 6 months continued to increase in January.

The average duration of unemployment increased significantly in January, from 18 to 19.4 weeks. So while we all welcome the reduction in the overall unemployment rate, we must recognize that for our long-term unemployed the economic picture is bleak and they need the immediate help of this committee and this Congress.

I am encouraged that the administration has indicated its support for an extension of the FSC program. In addition, I am very interested in the President's job voucher plan, which would provide employers a tax credit as an incentive to hire workers who are eligible for FSC benefits.

Making these benefits available for job training programs is another area the subcommittee is anxious to work on with the administration. The administration's plan, however, will do nothing to help the 1 million people who will have lost their unemployment benefits, including FSC, by April 1, 1983.

There is no safety net for those long-term-unemployed individuals when they exhaust their unemployment benefits. Very few will qualify for public assistance programs, mainly because of assets limitations. Most have lost their health insurance protection and many have lost their homes.

These individuals are part of the American work force. They want jobs. But until those jobs are available, they need help. It is my hope that as we consider the FSC program we do so with an understanding of the terrible hardships faced by those who are unemployed, the unemployed workers that live in this country and that this Congress must respond to.

We will also be addressing in these hearings the solvency of the State and Federal unemployment trust funds. The length and the severity of the recession is forcing many States to borrow from the Federal trust fund in order to pay unemployment benefits. Interest payments on these loans, mandated by the Reconciliation Act of 1981, are becoming an increasing burden for financially strapped States.

States will pay $420 million in interest in fiscal year 1983 and $850 million in fiscal year 1984. The most serious solvency problems are occurring in those States that have been hit hardest by the recession. During these hearings we hope to get a better understanding of the extent of the problem, its causes, and the most appropriate action that this committee and this Congress can take to make sure that the trust funds remain solvent for those who are in need of unemployment compensation benefits.

We are delighted to have all of the witnesses here today. The administration will be the leadoff witness and we will have others who will follow. The committee will stay in session until we complete the schedule today, and we will also start tomorrow with other witnesses on the unemployment compensation issues along with the issue of SSI benefits.

The committee would hope that we would complete these sessions tomorrow, late tomorrow afternoon, and move for a markup session within the next week, so that the full Committee on Ways and Means can have this legislation to coincide with the social security legislation that hopefully will move to the House floor within the next 30 to 45 days.

We all know that March 31 is the expiration date. Therefore, this committee must work diligently to try to finish this legislation to meet that March 31 date to extend the Federal supplemental compensation benefits.

We applaud the administration for supporting this legislation. It is not that we agree upon every issue at this time, but hopefully when we complete this legislation the administration can see fit to support the total package.

At this time the Chair will recognize the minority ranking member of the subcommittee, Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Today we take up a most important subject, and all of us have deep concern for those who are unemployed. It is of great importance that we immediately pass the extension of the FSC benefits. That is not a question that is in doubt in my mind before this subcommittee.

The question, of course, is what length of time that we go into. What do we explore in the areas of vouchers? We are delighted that the unemployment rate is down, that it has turned in January, that in fact, with inflation down and interest down, that the possibility of the unemployment rate coming further down is in fact a reality today.

We also need to look at the impact on certain areas of this country. What industries are in transition and in that transition what job displacement has taken effect? What do we need to do about retraining? It is something that must be addressed and it must be addressed in this Congress.

I, as the chairman, am interested in the voucher program that has been proposed by the administration and look forward to getting more details on this. I also am interested in the solvency issue. I am interested in the problems of the States that have borrowed the money and owe the money. I am equally interested in how the other States have not had to borrow the money and do not owe the money and why, if we should take it from them to pay the interest from the ones who have borrowed. I think we should explore this.

Mr. Chairman, I think that we should proceed, and I thank you, sir.

Chairman **Ford**. Thank you, Mr. Campbell.

Just one brief statement on that. Tomorrow morning we will have two Governors, one from Pennsylvania and the other one from Michigan, who will testify before this subcommittee as it relates to that particular issue. I am almost certain that the administration would like to touch upon that, but I would hope that we would try to dwell on the voucher plan.

I think it is something that we need to discuss. It is something that the Chair of this subcommittee has talked about for some time and I would like to explore that, and Mr. Campbell, I am certain that they will touch upon the fact of, what will we do to give the States the relief that they are going to be seeking. And they will be testifying before the subcommittee, and if necessary we will ask the Labor Department to come back before the subcommittee also to get into the details of those States who are faced with the interest rates and the high payments now that are owed to the Federal Government.

The Chair at this time would like to ask other members, would they like to have any opening statements before I call upon the first witness? Mr. Pease? Mr. Fowler? Mrs. Kennelly? Mr. Moore?

[No response.]

Chairman **Ford**. At this time the Chair will recognize the U.S. Department of Labor, the Honorable John Cogan, the Assistant Secretary of Policy for the Labor Department.

STATEMENT OF JOHN F. COGAN, ASSISTANT SECRETARY FOR POLICY, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY JAMES VAN ERDEN, CHIEF ACTUARY; AND WILLIAM B. LEWIS, ADMINISTRATOR, OFFICE OF EMPLOYMENT SECURITY

Mr. **Cogan**. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, it is a pleasure to have the opportunity to testify before you today.

With me on my left is Bert Lewis, who is the Administrator of the Department's Office of Employment Security; and on my right, Jim Van Erden, Chief Actuary for the Labor Department's unemployment insurance program.

I have a written statement that I would like to introduce into the record.

Chairman FORD. It will be made a part of the record.

[The prepared statement of Mr. Cogan follows:]

STATEMENT OF JOHN F. COGAN, ASSISTANT SECRETARY FOR POLICY, U.S. DEPARTMENT OF LABOR

Mr. Chairman and Members of the Subcommittee: it is distinct pleasure to have the opportunity to address you today.

The past three years have been a difficult period for millions of American. Back-to-back recessions beginning in January of 1980, coupled with fundamental changes in the direction of the economy have brought unemployment and hardship into the homes of many.

It is true that we have made major advances in correcting the ills that precipitated this difficult period. The recent decline in the unemployment rate is encouraging confirmation that the road to recovery, so painstakingly prepared, promises to be a route to better times for all. Nevertheless, even as the economy recovers this year, many Americans will suffer hardship due to continued high unemployment. It is the overriding concern of this Administration that these people not be left behind as the economy improves.

In searching for policies effective in combating the residual unemployment that will be experienced this year and next, it is essential that we recognize that there are two fundamentally different types of unemployment: cyclical unemployment and structural unemployment. Cyclical unemployment results from fluctuations in business conditions, and is the most significant source of additional unemployment during recessions. As the general level of business activity improves this year, employers will increase their demand for workers and this type of unemployment will decline. Structural unemployment, on the other hand, is not directly affected by swings in business conditions. It is caused by general skill deficiencies and by structural shifts in the economy that have produced a mismatch between the skills demanded by employers in growth industries and the skills embodied in workers displaced from declining industries, especially manufacturing. This mismatch has manifested itself in a high incidence of long-term unemployment among experienced workers.

The policies that we have put in place already ensure that cyclical employment situations will continue to improve in the coming months. Structural unemployment, however, will be largely unaffected by the economic recovery package we have enacted. Thus, any new policy proposals must be directed at the problem of structural unemployment if they are to be both responsible and effective.

Today, I'd like to expand on the package of proposals mentioned by the President in the State of the Union Address and included in the President's 1984 Budget designed to deal with our present problem of long-term unemployment particularly structural unemployment. Many, but not all, of these policies are under the jurisdiction of this Committee. The package of proposals involves an additional joint Federal-State expenditure of almost $3 billion in FY 1983 and FY 1984. The package will provide employment and employment services to 2.3 to 2.8 million unemployed individuals.

The first element of our proposal is to extend the payment of Federal Supplemental Compensation (FSC) benefits for six months—from April 1 until the end of the fiscal year. This will provide much needed financial assistance to those persons who exhaust other state and Federal benefits during this period.

We are also proposing a simplification of benefit determinations. Under the current program, there are five tiers of benefit durations, ranging from 8 to 16 weeks. We would replace this with a three-tiered program with durations determined as follows:

Sixteen weeks of benefits in states with an insured unemployment rate greater than or equal to 6 percent.

Twelve weeks of benefits in states with an insured unemployment rate less than 6 percent but greater than or equal to 4.5 percent.

Eight weeks of benefits in states with an insured unemployment rate less than 4.5 percent.

This proposal will remove unnecessary complexity from the program.

It is essential that all programs provide assistance to the most deserving. To achieve the goal of providing benefits to those with demonstrated work force attachment who lost their jobs through no fault of their own, we are proposing to limit FSC benefits to those who have had at least 30 weeks of employment during the base year preceding their unemployment, and have become unemployed by reason other than that of voluntarily quitting their jobs or being fired for good cause.

We believe that this proposal is both fair and fiscally responsible.

Providing help to the long-term unemployed is essential in our present situation. However, while unemployment benefits mitigate the economic hardship of being out of work, they do not help an unemployed person get back to work. Because unemployed workers would rather have a job than a benefit check, we want to adopt programs that will encourage the unemployed to seek employment, and that will encourage the businesses to hire workers, as well as create new jobs. For these reasons, we are proposing that the extension of FSC be tied in with an imaginative new program: A job voucher program. Under new program, a worker eligible for FSC will be allowed to take his unemployment benefits in the form of a job voucher.

Under the current unemployment insurance rules, a worker loses benefits entirely upon finding a job. An unemployed person entitled to 12 more weeks of FSC will lose 11 of these upon finding a job in his first week of FSC. Under our proposed addition to the FSC program, this will not occur. Instead, the worker will be allowed to retain the value of 11 weeks of benefits, but they will be paid out in the following manner. Instead of a cash assistance check, the worker will be eligible for a voucher. The worker's new employer can apply this voucher first against his unemployment insurance taxes and then against his Federal income taxes. Furthermore, to induce longer term attachments for those who find jobs through this voucher program, we are proposing that the amount of the voucher be set at 50 percent of the weekly benefit under FSC, but be available for double the period of the worker's FSC eligibility. The individual's total entitlement to benefits would thereby remain unchanged.

This job voucher program will lend significant aid to an unemployed worker in finding a new job, since the worker will be able to go to a prospective employer and offer the voucher, and the employer will see that there are significant cost savings to be realized from hiring the individual. This will help in getting people back to work, in creating new jobs, and in reducing the duration of unemployment.

We further propose that vouchers under this program be valid for new jobs begun on or before March 31, 1984, thus, extending beyond the FSC termination date of September 30, 1983.

Our proposal to modify and extend FSC will both ease the transition to prosperity and speed its arrival. As I noted earlier, however, an important source of structural unemployment is due to a mismatch between the skills demanded by employers and the skills embodied in workers. If we are to help these workers move into tomorrow's jobs we must ensure that they are trained for those jobs. In part, we will be able to do this via the Job Training Partnership Act, which was enacted with bipartian support during the last Congress. It is also true, however, that the states, with their special knowledge of local labor market conditions, can play a valuable role in retraining displaced workers. To aid the States in assuming this role we are therefore proposing to allow states:

To design their own reemployment assistance programs for permanently displaced workers, and

To use up to 2 percent of state unemployment insurance tax revenues to pay for re-training, job search and relocation assistance.

If all States chose to do so in 1984, we estimate that this proposal would allow them to spend up to $374 million for job training and relocation assistance. When combined with the appropriation we are requesting for JTPA, this would enable more than 300,000 displaced workers to obtain the training they need to resume an active, productive role in our workforce.

In addition to proposing a modification of Federal law, we also intend to encourage the states to make an important modification in their own laws. All states have some limit on the amount of income that a person can earn in part time employment before there is an offset to that person's unemployment benefits. In a few states this limit ranges up to onehalf of the person's unemployment benefit. In many states, however, this limit is but a few dollars per week. Such stringent limits on earned income are a serious impediment to part time work by those who have lost their full time job. When combined with the differential tax treatment of unemployment benefits and earned income, it is possible for the take home pay of a part time worker to be lower than if that person did not work at all. This is a particularly onerous burden on displaced workers, who may desperately need extra cash while they search or train for a new full time career. Naturally, we will leave it up to the states to take into account local conditions, such as cost of living, to determine the magnitude of the revisions in their earned income limits. Nevertheless, we feel that most states will wish to reduce this impediment to part time work, thereby easing the financial difficulties of their citizens. We are of course proceeding with the mandate given to us last year to encourage States to pay partial unemployment compensation when a firm and its workers have agreed to a shorter work week for all workers rather than lay offs for some.

The final point I wish to touch on concerns our proposal for a youth opportunity wage designed to reduce unemployment among youth. Under this proposal, youth under the age of 22 will be eligible for a minimum wage of $2.50 per hour, about 25 percent below the regular minimum of $3.35 per hour. In order to protect the jobs of older workers, eligibility for this youth opportunity wage will be restricted to the summer months, specifically May 1 to September 30.

Although many of the details of this proposal are not the direct responsibility of this Committee, there is one facet that is relevant to your work. Absent a provision to the contrary, some of the youngsters hired as a result of the youth opportunity wage would be eligible for unemployemt benefits at the termination of their summer work. This would have an adverse effect on the unemployment tax obligations of many employers and would thus discourage them from hiring youngsters. We are thus proposing that employers hiring youth under this program be exempt from unemployment insurance taxes on the youth and the youth be correspondingly ineligible for benefits.

In closing, I wish to reiterate the Administration's commitment to improving the condition of those who are now unemployed. We believe that as the recovery that is now underway gathers steam, our proposal to extend FSC will ease the transition to better times and our job voucher proposal will speed that transition. By permitting UI funs to be used for job training, the displaced workers who have borne the cost of technological change will be able to enjoy the fruits of recovery. Finally, by encouraging the states to raise limits on earned income, we will be easing the financial burden of those who are unable to find full time work. In sum, we believe that the proposals we are offering will make the year ahead a more prosperous one for all Americans.

This concludes my prepared remarks. I will be glad to answer any questions you may have.

Mr. COGAN. I would like to make a brief opening statement and then answer any questions you may have on the issues before us.

Chairman FORD. You may proceed.

Mr. COGAN. Today I would like to expand upon the package of proposals mentioned by the President in his state of the Union address. The package involves an additional joint Federal-State expenditure of almost $3 billion in 1983 and in 1984. The package will provide unemployment assistance and employment services to between 2.3 and 2.8 million unemployed individuals.

The first element of our proposal is to extend the duration of the Federal supplemental compensation program. The extension will be for 6 months, from April 1 until the end of the fiscal year.

We are also proposing a simplification of benefit determinations. We would replace the current five-tiered program with a three-tiered program. Benefit durations would be determined as follows:

Sixteen weeks of benefits would be provided in States with an insured unemployment rate greater than or equal to 6 percent; 12 weeks of benefits would be provided in States with an insured unemployment rate less than 6 percent and greater than or equal to 4.5 percent; 8 weeks of benefits would be provided in all other States.

This proposal will remove the unnecessary complexity from the current program, but keep benefit durations intact.

It is essential that all programs provide assistance to the most deserving.

To achieve our goal of providing benefits to those individuals with demonstrated work force attachment, who lost their jobs through no fault of their own, we are proposing to limit FSC benefits to those who have had at least 30 weeks of work during the base period preceding their unemployment. We would also limit the benefits to those who have become unemployed other than voluntarily quitting their jobs or being fired for good cause.

We believe that this proposal is both fair and fiscally responsible. Although unemployment benefits mitigate the hardship of being out of work, they do not help an unemployed person get back to work. Unemployed workers would rather have a job than a benefit check. Therefore, we are proposing that the extension of FSC be tied with an imaginative new program, a job voucher program.

Under his program a worker eligible for FSC would be allowed to take his unemployment benefits in the form of a job voucher. The job voucher will be used to defray the costs of hiring an unemployed individual. The worker's new employer can apply this voucher first against his unemployment insurance taxes and then against his Federal income taxes.

Furthermore, to induce longer term attachments to those who find jobs through the voucher program, we are proposing that the amount of the voucher be set at 50 percent of the weekly FSC benefit, but be available for double the period of the worker's FSC eligibility. The individual's total entitlement to benefits would thereby remain unchanged.

To clarify, if the average benefit or typical benefit in a high unemployment State is $120 per week, the voucher would be worth $60 per week, and in a high unemployment State that provided 16 weeks of FSC benefits, the voucher would be good for 32 weeks of employment.

This job voucher program will lend significant aid to an unemployed worker in finding a new job. It will help get people back to work, create new jobs, and reduce the duration of unemployment.

We further propose that vouchers under this program be valid for new jobs begun on or before March 31, 1984, thus extending beyond the proposed FSC termination date of September 30, 1983.

The third part of our proposal is designed to address the structural problem of unemployment. One source of structural unemployment is that there exists a mismatch between the skills demanded by employers and the skills embodied in workers. If we are to help these workers move into tomorrow's jobs, we must insure that they are trained for those jobs.

States have special knowledge of local labor market conditions and can play a valuable role in retraining displaced workers. To aid the States in assuming this role, we are therefore proposing to allow States to use up to 2 percent of State unemployment insurance tax revenues to pay for retraining, job search, and relocation assistance.

If all States chose to do so in 1984, we estimate that the proposal will allow them to spend up to $374 million for job training and relocation assistance. When combined with the appropriation of $240 million that we have requested for the Job Training Partnership Act, this would enable more than 300,000 displaced workers to obtain the training they need to resume an active and productive role in our work force.

We also intend to encourage States to increase allowable limits on part time work by UI recipients. All States have some limit on the amount of income that UI recipients can earn. In many States, this limit is but a few dollars per week.

With such stringent limitations, individuals are not provided with any incentive to seek part-time work. We would encourage States to allow increased limitations on part-time work. Naturally, of course, we would leave it up to the States to take into account local labor market conditions and determine for themselves the magnitude of the revisions in their programs.

Finally, we are proposing a youth opportunity wage, designed to reduce structural unemployment among youths. Under this proposal youths under the age of 22 will be eligible to work at a wage of $2.50 per hour, about 25 percent below the regular minimum wage of $3.35 an hour. Eligibility for this youth opportunity wage will be restricted to the summer months, specifically May 1 to September 30.

Under current law in many States, some of the youngsters hired as a result of the youth opportunity wage would be eligible for unemployment benefits at the termination of their summer work. This would have an adverse effect on the unemployment insurance tax obligations of many employers and would thereby discourage them from hiring youngsters.

We are thus proposing that employers hiring youths under this program be exempt from unemployment insurance taxes on the wages paid to the youth, and the youth correspondingly be ineligible for unemployment insurance benefits.

In closing, I wish to reiterate the administration's commitment to improving the condition of those who are now unemployed. In sum, we believe that the proposals we are offering are a step toward making the year a more prosperous one for all Americans.

Mr. Chairman, this concludes my opening remarks. I would be glad to answer any questions you or the committee members might have.

Chairman FORD. Thank you very much. I am sure that there are questions by each member of the panel.

First, Mr. Cogan, I would like to know a little bit more about the voucher plan. You indicated earlier that the administration would propose a 6-month extension for the FSC program, and you also mention in your statement that the voucher plan would run through March 31, 1984, meaning that the FSC extension would expire 6 months from the March 31 date, but the voucher plan would stay in existence to March. The proposal is for it to stay in existence until March 31, 1984.

Now, are you proposing a 12-month period for the voucher plan and a 6-month extension for the FSC benefit program and the cash voucher?

Mr. COGAN. That is correct, Mr. Chairman.

Chairman FORD. How do you propose that we do that?

Mr. COGAN. During the first 6 months of the program an individual eligible for FSC would have the option of taking his or her benefits in the form of cash assistance or in the form of job voucher. We would allow the individual to first take the assistance in the form of cash, and then while the individual looks for a job notify the employer that if the employer hires the individual, he would be eligible for a tax credit under the voucher.

If the employer chooses to hire the individual, say after 4 weeks, then the remaining portion of the individual's FSC entitlement would be in the form of a job voucher.

During the latter 6 months of the program, after the FSC cash assistance component has expired, an individual qualifying under the eligibility requirements we have set for FSC would receive assistance only in the form of a voucher.

Chairman **Ford**. It is stated from the White House, from the President himself, and I think last night on the electronic media someone indicated that the President would seek another term if certain things happen within the next 6 months, and one thing they did mention is unemployment, if it leveled off, and to them, level off is anywhere between 9 and 10 percent, meaning that unemployment would still remain high over the next 12 to 18 months in this country.

Why would the administration propose a 6-month extension of FSC rather than a 12 month, when you are proposing a 12-month period for the voucher plan.

Mr. **Cogan**. Mr. Chairman, after examining the prior record of private and previous administration forecasts of how rapidly the unemployment rate declines during a period just following a recession, we are pretty well convinced that there is a lot of uncertainty about our forecasts.

Chairman **Ford**. But the administration acknowledges that 9 to 10 percent would be attractive enough to the administration to seek another term. So it is obvious to us, to me at least, that the administration would feel that unemployment is still going to remain at 9 or 10 percent in the next 12 months.

Mr. **Cogan**. As you are no doubt aware, Mr. Chairman, our estimates are very cautious estimates. Most often, administration forecasts are too optimistic and 6 months down the road, or 1 year down the road, we end up having to explain why we have made such optimistic forecasts and why the world did not turn out that way.

The estimates are cautious estimates, but we also have to recognize that there is considerable uncertainty regarding these estimates, and if, in fact, it turns out that the unemployment rate declines more rapidly than our forecasts indicate, then perhaps we should revisit the issue of FSC in the summer and consider an alteration in the duration of benefits provided.

If unemployment declines very rapidly we may not wish to seek a further extension of the program. But right now, Mr. Chairman, we would like to keep the options open, given the uncertainty surrounding the forecasts with respect to the unemployment rate.

Chairman **Ford**. Approximately how many jobs did you state would be created if this committee adopted the voucher plan and the Congress reported it out to the President?

Mr. COGAN. We anticipate in fiscal year 1983 somewhere around 200,000 vouchers will be used, and in 1984, 500,000 vouchers. So a total of about——

Chairman FORD. 700 would go into the job program?

Mr. COGAN. 700,000.

Chairman FORD. Why can't employers get cash rather than a tax credit? What happens to a company, a business, with no tax liability? What would be attractive to that person or that company for using the voucher plan? I mean, why would they employ someone without any tax liability?

Mr. COGAN. We have tried to structure the program so that it has very broad coverage and provides very broad incentives to employers. Certainly, if a firm has no unemployment insurance tax liability and no Federal tax liability, this program will not induce that employer to hire anyone.

Chairman FORD. The purpose of it is to create jobs; is that right?

Mr. COGAN. Yes, the purpose is to create jobs, and by expanding the tax credit to include an unemployment insurance tax credit we are covering the vast majority of employers and the vast majority of jobs in this country.

We considered the option of providing direct cash assistance. Our concern, however, is that providing direct cash assistance might lead to fraud and abuse. The voucher program is much more controllable if it is run through the unemployment insurance program and as an offset——

Chairman FORD. But it would not change the fiscal impact on the Federal Government. Costwise, would it be a big difference?

Mr. COGAN. We do not believe so.

Chairman FORD. How about the actuary department? Do you think costwise it would make a significant difference?

Mr. VAN ERDEN. I do not believe so, sir.

Mr. COGAN. Let me try to give you an example of how broad the coverage is. I think that the typical UI tax rate faced by a firm is 3.0, 3.5 percent on the first $7,000 of wages, that is somewhere around $210 to $240 per year, per employee.

A voucher program that provided, say, 10 weeks of benefits, at $60 a week, would cost $600. So an employer who had three or more employees who had no income tax liability would still have a sufficient UI tax liability to hire an individual under this voucher program. If the employer had a Federal income tax liability, then the incentive would even be larger.

Chairman FORD. One final question. What about the 1 million people who will have already exhausted all 55 weeks of their benefits as of April 1, 1984, once this legislation is enacted and the new extension is there? What happens to the 1 million people who have exhausted those benefits? Would they qualify for the voucher plan?

Mr. COGAN. Under the way we have structured it thus far, Mr. Chairman, they would not qualify for the voucher. After our discussion of last week, we have been looking at the possibility of allowing these individuals to qualify under the job voucher program. We have not completed our analysis; we have some idea of what the cost would be. It is somewhere around $200 million, perhaps $400 million.

We would be willing, of course, to work with you to try to develop some means for providing some type of assistance to these unfortunate individuals that have exhausted FSC benefits.

Chairman **Ford**. If not that, the administration may consider an additional 10 weeks for those who have exhausted the benefits maybe? [Laughter.]

The Chair recognizes Mr. Campbell.

Mr. **Campbell**. Thank you, Mr. Chairman. Mr. Cogan, thank you so much for your statement. Let me ask you a couple of questions by comparison.

The cost of the 6-month plan that you have proposed here vis-a-vis the cost of a 12-month plan. Would you give me those two figures, please?

Mr. **Cogan**. The cost of the 6-month extension of FSC is $1.85 billion. Were we to extend it for an additional 6 months, the additional cost would be somewhat less than $1.85 billion; about $1.3 to $1.5 billion for an additional 6-month extension beyond the end of the fiscal year.

Mr. **Campbell**. OK. On the voucher system you have discussed some of the different taxes that they could offset. Now, do I understand they can offset any of the taxes, unemployment, income, social security?

Mr. **Cogan**. Not including social security.

Mr. **Campbell**. Not including social security, all right. I wanted to make sure of that. We have that going on, as you well know, in other areas.

What if an employer acquires more voucher credits than he has taxes to offset? What happens then? Is the excess refundable; can he carry it over? What is your plan?

Mr. **Cogan**. If the value of the voucher exceeds the employer's total tax liability, then we would allow the employer to carry over the credit and apply it to his future Federal income tax liability. But at present, we have no provisions for allowing the employer to carry it over as a credit against his future unemployment insurance tax liability.

Mr. **Fowler**. For that year only.

Mr. **Campbell**. For that year only or going over to another year?

Mr. **Cogan**. We would allow the employer to carry over the tax credit, applied to his Federal income tax, business income tax, into subsequent years.

Mr. **Campbell**. So that would give an employer that may not have a Federal tax liability currently the incentive to go ahead and hire in this situation.

Let me ask you about your other units of employers. About 30 percent of the workers of the country are employed by nonprofit companies. How do you figure this incentive to go to them? What are they going to do?

Mr. **Cogan**. Nonprofit firms pay unemployment insurance taxes.

Mr. **Campbell**. That is all they pay on this list that I have that is going to be offset.

Mr. **Cogan**. On a reimbursable basis. So nonprofits would qualify for a tax credit through the UI system.

Mr. **Campbell**. The incentive would be less, though, for them.

Mr. COGAN. For very small nonprofits, yes, or for nonprofits with small tax liability, yes.

Mr. CAMPBELL. Let me ask you one other question. How do you protect against the laying off of a worker or the filling of a job that might be filled by someone at the minimum wage who was an adult worker that may have responsibilities? Do you have that protection built into your legislation?

Mr. COGAN. Under the youth differential?

Mr. CAMPBELL. The youth differential.

Mr. COGAN. Yes, we do. We have limited the youth differential, or the youth opportunity wage, to the summer months because we are concerned about the possibility of some substitutions.

However, we have also provided a safety valve in our legislative draft that would prohibit displacement of adult workers for youth.

Mr. CAMPBELL. All right. Now let me ask the same question on your voucher. How do you prevent the displacement of an existing worker to hire one with a voucher for a tax advantage? Is there protection in your proposal here?

Mr. COGAN. There is some protection provided by the way the unemployment insurance system works. If a firm were to displace an experienced worker to hire a worker on the voucher program, his unemployment insurance tax liability would rise. In most States, employers are charged for the benefits collected by their former employees; therefore, there would be a charge back to the employer.

So in a natural way, the unemployment insurance program does tend to reduce the gains associated with displacing existing workers in favor of job voucher workers.

Mr. CAMPBELL. Have you done any figures offsetting salary scales with that?

Mr. COGAN. Mr. Campbell, no, we have not.

Mr. CAMPBELL. I wonder if you could have that provided for us. I would like to take a look at that.

Mr. COGAN. We would be happy to.

Mr. CAMPBELL. Mr. Chairman, my time is about up. Let me ask one other question. In dealing with the budget and in dealing with the problems we have trying to keep interest rates down and bring inflation down, anything that we do for a contingent liability of the Federal Government beyond what we need to do to alleviate suffering could, in fact, impact the other way, could it not?

In other words, if we overdo, if we overdo and then we create more pressure on the deficit, then the pressure may be on us in other areas to reduce, which could impact and hurt even the people we are trying to help. Would you agree with that?

Mr. COGAN. I would agree. I think the times of high budget deficits make Congress job very difficult. On the one hand, we have the human concern of providing additional assistance to those in need. Then on the other hand, we have the fact that a large expenditure would result in a delay in the economic recovery and prevent many individuals from regaining their jobs with the recovery.

Mr. CAMPBELL. So our whole effort, and I want to make it very clear where I am coming from, our whole effort is to get the most help to the people for the longest period of time; not to hinder the recovery while we are trying to do something to help and wind up hurting.

Thank you, Mr. Chairman.

Chairman **Ford**. Mr. Pease?

Mr. **Pease**. Thank you very much, Mr. Chairman. Thank you, Mr. Cogan, for a good statement. I think you have given the committee some intriguing ideas to chew on, and I appreciate the thoughtfulness which went into these.

We have talked about your recommendation for an extension being for 6 months. It would expire at the end of this fiscal year. At what point and under what circumstances would you consider recommending a further 6-month extension before September 30?

Mr. **Cogan**. The point would be sometime in the summer, perhaps in July, perhaps in August. What the unemployment rate should be for us to propose an extension I cannot say right now.

Mr. **Pease**. But you would certainly keep your options open on a further 6-month extension?

Mr. **Cogan**. That is right.

Mr. **Pease**. You mentioned in your testimony that under your recommendations you would allow States to use up to 2 percent of something, and I missed what it was, for job training, job search, and relocation. Could you tell me what that is 2 percent of?

Mr. **Cogan**. It is 2 percent of State tax revenues under the UI program.

Mr. **Pease**. State UI tax revenue? Not general tax revenue?

Mr. **Cogan**. Right.

Mr. **Pease**. Now, I assume that the States are presently spending all of their UI revenue for unemployment compensation benefits.

Mr. **Cogan**. Some States are, that is right.

Mr. **Pease**. Would it be most States?

Mr. **Cogan**. Yes.

Mr. **Pease**. Then if we allow them to use 2 percent for job training and job search and relocation, which happens to be a subject of great interest to me, would they not have to increase their taxes or increase their borrowings in order to continue meeting mandated unemployment compensation payments?

Mr. **Cogan**. This proposal that we have put before this committee is a long-term proposal. It would require all States to amend their laws. We do not anticipate that that can happen very rapidly. This is not a proposal to deal with the short-term problem of providing training; it is more of a long-term problem that we are trying to get at here.

Under the provisions that we have put in our legislative draft, States would be able to borrow for retraining, as they are now, for the payment of benefits. This proposal that we have offered should be viewed as part and parcel of our overall effort to deal with the structurally unemployed displaced worker.

And another part of that program is the Job Training Partnership Act. We would provide direct funds to the States for retraining permanently separated or dislocated workers.

During the next 2 years or 3 years, in many States where the displaced worker problem is particularly acute such as Michigan, Indiana, Illinois, Ohio, and Pennsylvania, and the 211 debt is large, we would target the funds under title III of the Job Training Partnership Act to those States precisely because we realize those States are now not collecting sufficient revenues to meet outlays for the payment of benefits.

But again, I must emphasize it is a long-term policy change consistent with our views on federalism. We are providing the States with a little more flexibility on how they provide assistance to the long-term unemployment.

Mr. PEASE. I see. Now, you gave us a figure before that, I think; if all States participated that would be $374 million added to the $240 million of Federal funds, of which could provide retraining or job search or job relocation or 300,000 displaced workers, right?

Mr. COGAN. Not quite. It is $420 million under the JTPA. We are requesting $240 million in Federal funds, but these funds must be matched by the States, and the estimated match is $180 million, providing a total of $420 million.

Mr. PEASE. So, the 300,000 figure of those who could be retrained or relocated may be a little optimistic in light of your previous testimony that you would not expect all States to be able to amend their laws that expeditiously.

Mr. COGAN. It may be optimistic, that is right.

Mr. PEASE. Also, of course, there may be some States who could not provide the match under the Job Training Act, and that would further reduce the 300,000; right?

Mr. COGAN. Yes. Now, the extent of the match depends upon the States' unemployment rates. States with very high unemployment rates are not required to put up as much in the way of funds as States with low unemployment rates.

For example, we anticipate that the State of Michigan will have to put up a 10 percent match. So the problem of a match varies with the unemployment rate in the State or the severity of the problem.

Mr. PEASE. In light of the fact that you and I now agree that the 300,000 figure is probably substantially optimistic, what do you think about the figures you have heard of 11 million people unemployed altogether? I think the chairman said over 1 million have been unemployed for more than a year. Is this program adequate to meet the needs of those people?

Mr. COGAN. Many of the 11 million Americans, most of the 11 million Americans that are unemployed now, are unemployed because of the poor performance of the economy. Most of it is cyclical unemployment.

Back in January of 1980, there were around 6.7 million Americans unemployed. The bulk of the growth in unemployment is due to a stagnating economy. We are now trying to provide assistance for the structurally unemployed; those who will not get their jobs back when the economy recovers.

Mr. PEASE. Thank you very much. The reason I am smiling is that for the first year or year and a half the administration economists kept telling us that the recession we are now in was cyclical and the high unemployment was cyclical, and with this new budget they have switched directions and now are claiming that most of the unemployment is structural, not cyclical, and, therefore, even in the next 2 or 3 years after we recover from the recession there will still be 7½-, 7-percent unemployment.

Is there some way you can reconcile your view that most of the unemployment is cyclical with the administration's new position that most of the unemployment is structural?

Mr. COGAN. I am not sure there is one uniform definition of "cyclical" and another for "structural." But what we can say is that sometime in late 1978 many of our basic manufacturing industries started a significant downturn. What do you call that? Cyclical or structural? Well, I tend to think of it as cyclical in the sense that it was produced by high interest rates, tight monetary policy, factors which can be corrected and which we are correcting. That is why I call it cyclical.

Structural is, in some sense, embedded in the economy and independent of the economy's performance. So I tend to sort of take the side that most unemployment is cyclical and is the result of a poorly functioning economy.

Mr. PEASE. I think you mean you take the position that most of it is cyclical?

Mr. COGAN. That is right.

Mr. PEASE. I will not pressure you for any further reconciliation of your views with those of the administration.

If I am allowed another quick question or two, What about the effect, if any, on the FUTA fund? We are going to provide a voucher to an employer so he winds up not paying his taxes to the FUTA fund. What is the loss of revenue to the FUTA fund?

Mr. COGAN. The way we have structured the program, there will be no net impact on FUTA funds. Basically, it is a paper transaction. The employer would submit the voucher to the State or Federal Government and we would reimburse the trust fund, the State trust fund, from general revenues for the voucher.

Mr. PEASE. Fine, thank you. I am glad for that answer. It gives me some confidence. I am impressed that you have spent some time working out these details.

The final question, I do not think you mentioned in your testimony, did you, your attitude toward the problem of States like Ohio and Michigan which owe a great deal of money to the Federal Government for borrowings and now are going to be liable for substantial interest payments as well. Do you have a position on what, if anything, can be done about that problem?

Mr. COGAN. Right now, Mr. Pease, we are examining both the dimensions of the problem and the nature of the problem. We have no position right now, but we would be happy to come before this committee in the near future and provide a position.

But let me speak just for a few moments on the nature of the problem. As you well know, we anticipate that 35 States will have borrowed by the end of fiscal year 1983. We recognize that the recession has resulted in part of the problem.

The problem is very much concentrated in about four States. At the present time, the four States of Illinois, Michigan, Ohio, and Pennsylvania account for 76 percent of all outstanding loans. Eight States account for 90 percent of all outstanding loans. So the problem is not a broad one. The problem is a very concentrated one.

And among these four States that have the most significant part of the problem, one State, Michigan, has already taken significant action, reformed its unemployment insurance law and according to

State officials, the changes will insure solvency somewhere around 1988. They have bitten the bullet, if you will.

With respect to deferral of interest and loan repayments, it should be pointed out that the Federal Government already does defer a portion of interest payments in high-unemployment States. In 1984, under current law, we will defer approximately 30 percent of interest payments so that there already is a deferral mechanism in place.

And finally, the interest provisions that we have enacted have resulted in many States looking at their unemployment insurance laws in great detail to insure solvency.

Besides the State of Michigan which has reformed its law, the State of Louisiana has overhauled its law. We feel that the interest payments have provided a desirable incentive to have States look, many for the first time in a long time, at the solvency of their program. Although we do not have a position right now, we are somewhat reluctant at this juncture to provide any proposals for deferral of interest or loan repayments.

But again, I want to emphasize that no official position as yet. If you have any detailed questions, I am sure that Jim Van Erden——

Chairman FORD. Once we hear from the Governors tomorrow, we have notified the Labor Department that we might want to call them back before the committee to respond to some of the questions that will be raised by the Governors and the panel.

Mr. PEASE. Fine. Thank you very much, Mr. Chairman.

Chairman FORD. Mr. Fowler?

Mr. FOWLER. Mr. Cogan, I do not understand why you are excluding those Americans who have exhausted their 55 weeks. Aren't those the ones that need to find jobs the most?

Mr. COGAN. As I indicated before, Congressman, excluding any individuals from additional assistance is always——

Mr. FOWLER. I do not want to hear the compassionate argument. I want to understand why the program, as you have suggested it, is not backward. That those people who have exhausted 55 weeks, all of their benefits, seem to me to be the ones that would be the most desperate for employment, and that you would want those who are most desperate for employment and who have exhausted every remedy through all levels of government available to be those to find the jobs quickest.

Now, where are the flaws in that logic?

Mr. COGAN. There are no flaws in that logic, Congressman. The simple fact is that we need to draw the line somewhere. Reasonable people can disagree on where that line should be drawn, but we have to draw it. That is part and parcel of policymaking.

We have chosen to draw it at 55 weeks. We feel that 55 weeks is long enough for an extension of benefits. We are willing, of course, to consider the chairman's suggestion that we provide assistance in the form of a job voucher for these individuals.

Mr. FOWLER. So they will be eligible for the voucher?

Mr. COGAN. As I said, we will consider the chairman's suggestion.

Mr. FOWLER. Well, I urge you to consider the chairman's suggestion. The goal is not where to draw the line as to how much is enough. The goal, it seems to me, that we are all seeking is getting people to work, back to work, who have lost their jobs. And obviously, those who have been out of work the longest seem to be having the most trouble by any measurement of finding work. So that is what I was talking about, more than the cash benefits.

I do not see how in the world you can have this imaginative, bold program that you describe and I am using your words, how can you not give some sort of opportunity to those who, by any discernible measure, need it the most.

Let me ask you about the new test that you are putting in for the voucher program. You are only going to consider those people who have had at least 30 weeks of employment during the base year preceding their unemployment. Now, who are these people and who do you think, more importantly, that will exclude? Who will not qualify for the test? How many of them are there? What kind of jobs are we talking about?

Mr. COGAN. Our estimates indicate that somewhere around 300,000 individuals will be excluded, but with the tighter eligibility requirements we will still be able to serve 1.3 million individuals under the FSC program. The people that would be excluded would be people with a lesser labor force attachment than the people that are included.

Mr. FOWLER. Now, to get out of the statistical jargon, who are we talking about? Are we talking about semiskilled people, are we talking about hamburger flippers, are we talking about school teachers? Who do you think we are talking about? Surely you have looked into the human faces behind the statistics.

Mr. COGAN. Well, we have looked at the characteristics of those people who would be excluded, and by and large in terms of demographics, they are in some respects very similar to those individuals who would be receiving FSC under the 30-week requirement. There are some differences. In fact, about 45 percent of those individuals who would not qualify under our new rules——

Mr. FOWLER. Forty-five percent of what people would not qualify?

Mr. COGAN. Of those who would not qualify under our new rules raising the weeks required from 20 to 30, about 45 percent of those have no dependents. So, we would be excluding a lot of single individuals and not many with families.

Mr. FOWLER. Does the voucher system apply to Government employment?

Mr. COGAN. It would not apply to Federal Government employment.

Mr. FOWLER. We would be very disappointed in the administration if they forsook that last ideological premise that Government employment is not real jobs anyway.

How about the test you know, you have a new administrative test in here now, don't you. So you have the first test for the first 26 weeks, and then depending on the State, you have another test for whether you get another 20 weeks of unemployment. So now, if we are going from week whatever it is for your new 6 month FSC, is that when the test will also be applied as to whether or not they qualify for the voucher, whether they have met the 30 weeks?

Mr. COGAN. Yes. April 1.

Mr. FOWLER. The State will do that?

Mr. COGAN. Yes.

Mr. FOWLER. And you are going to write all the guidelines as to what employment is right for or qualifies for vouchers and which does not?

Mr. COGAN. Any employment would qualify for the voucher except——

Mr. FOWLER. Except Government employment?

Mr. COGAN. Except Government employment and rehires. We would exclude rehires.

Mr. FOWLER. What does rehires mean?

Mr. COGAN. An employer who tried to rehire his former employee would not qualify for the voucher.

Mr. FOWLER. Even one that he had laid off not for cause but because of the cyclical/structural recession?

Mr. COGAN. Again, that is a difficult choice we have to make, but we anticipate that as the economy recovers it will create somewhere around 1.6 million jobs. We do not want this program to become a boondoggle for business firms. We want business firms to create new jobs. We do not want to provide a subsidy for employers who would have hired these individuals without the subsidy.

Mr. FOWLER. Wait a minute, let's talk about that for a minute. It seems to me that you could do both but you are not doing both. The reason for the requirement for at least 30 weeks of employment during the base year preceding their unemployment is that you do not want new people in the jobs; you want to get the people back to work who have been laid off.

Now you are saying we want to create new jobs and we are going to prejudice those people who were laid off because of this recession and through no fault of their own, that we are not going to let them back in. Isn't there some inconsistency there?

Mr. COGAN. Not that we are not letting them back in, Congressman. It is a question of whether we want to provide large subsidies for firms to rehire individuals, to hire individuals that they would have recalled anyway as the recovery gets going.

Mr. FOWLER. You are making that assumption that that is what they are going to do.

Mr. COGAN. Presumably, that is what they will do. There will be a significant recreation of jobs. We have already seen recalls in the automobile industry; we are already seeing recalls in the construction industry. Again, it is a difficult decision to make whether to exclude rehires from the job voucher program, but right now we have come down on the side of excluding them in the interest of not providing an excessive benefit to firms who would rehire individuals they would have rehired anyway.

Mr. FOWLER. Well, I would ask you to relook at that for the obvious reasons.

Well, I have probably gone on too long. I could go a little bit more but I see my friend, the intelligent, dynamic questioner from Louisiana, is ready. So I am going to yield to my friend.

Chairman FORD. Mr. Moore is recognized.

Mr. MOORE. I thank the chairman and the gentleman from Georgia. I would be glad to give him some time if I thought that his questions would sway me.

Mr. Secretary, I am a little disappointed in your testimony a few minutes ago. I think you have opened the Pandora's box without intentionally doing so on this interest question. Is it not the case that the unemployment compensation fund is part of the general budget or the unified budget?

Mr. **Cogan**. Yes; it is.

Mr. **Moore**. Is it not the case that there is no money there, the unified budget is now in deficit this year, a projected $200 million?

Mr. **Cogan**. Yes, sir.

Mr. **Moore**. What is the amount of interest that would be owed for fiscal year 1983 to this fund?

Mr. **Van Erden**. We anticipate $475 million.

Mr. **Moore**. And how much would be expected in fiscal year 1984?

Mr. **Van Erden**. We are expecting a liability of $1.255 billion, of which $400 million will be deferred as a result of the provisions in existing law.

Mr. **Moore**. So you are talking about $1.2 billion?

Mr. **Van Erden**. That is the liability.

Mr. **Moore**. And so if we, in some way, forgive or do away with interest provision, the deficit projections will be $1.2 billion worse for fiscal year 1984 than they are now; is that correct?

Mr. **Van Erden**. Yes, it would actually be $800 million.

Mr. **Moore**. $800 million worse. Now, where does a State that wants to come and borrow from this UC fund get the money? Where do you go get the money? The money is not there; I take it you have to borrow it.

Mr. **Van Erden**. Well, the money does come from general revenue advances, which the Treasury will have to go out and borrow.

Mr. **Moore**. And what is the cost of that money right now to the Treasury?

Mr. **Van Erden**. The average cost of borrowing last time I looked was around 11 percent. I expect it is a little lower than that now.

Mr. **Moore**. Around 11 percent, maybe a shade under. And what is the interest rate the law requires the States to repay?

Mr. **Van Erden**. Right now, the interest rate is capped at 10 percent.

Mr. **Moore**. At 10 percent. And so they are getting the money cheaper than they get it anywhere else in the country already. It costs the Government 1 percent, not counting administrative costs of handling the proposition.

Mr. **Van Erden**. I am not sure of all the sources the States have.

Mr. **Moore**. A comment was made concerning my State, and I think there are more than that. I think South Carolina is in that category of the States that have consciously avoided making the loans now because of this interest provision. They have raised their taxes and cut their benefits, as my State just did in January, to where we were one of the top third States in the Union in benefits. And we have cut back our workers and we have tripled or put a 20 percent increased surcharge on the employers in my State to prevent us from having to borrow. Isn't that right?

Mr. **Cogan**. Yes.

Mr. **Moore**. And then doesn't the record also indicate that some of the States that we expect to hear from about the interest being a problem are States that have been borrowing money going back to 1972, 1975, and 1977, long before the current unemployment problems were upon us? Is that correct?

Mr. COGAN. That is correct.

Mr. MOORE. So I have almost no patience to hear talk about doing away with the interest requirement and no patience to hear the Department say that we have this under consideration.

I think you fellows had better get your act together and realize that in 1981 we had a situation where a number of States were borrowing the money of the other States, and the Federal Government for nothing, and had no intentions of paying it back because it was a damned good deal. And now suddenly they have got some problems.

We realize these are serious problems, and in 1982 we addressed this matter. We bent over backward to accommodate these States. But I have an idea that they do not intend to ever pay the interest and would like to not pay the loan. Some of them have been floating these loans since 1972 when unemployment was not a problem in that State.

Meanwhile, my State and South Carolina and many others have addressed this issue and raised the taxes and cut the benefits because they knew they were going to have to pay an interest loan. And in the part of the country where I come from, a loan means you pay it back, it is not a gift. You pay it back with interest and they have got a darned good deal. They are paying it back for less than what we have to go out and borrow it for.

Let's make the record complete; that the citizens of the United States of America are underwriting the unemployment compensation benefits in those States by paying part of the interest costs or forgiving, as the case may be, interest costs in those States. So I hope you fellows, when you consider it, you will come back and say there is no reason to change the law we passed in 1981.

Other than that, I have no strong feelings about the matter. [Laughter.]

Mr. Chairman, I yield back.

Chairman FORD. Mr. Hance?

Mr. HANCE. I would like to go over your proposed voucher system again and ask for some additional identification. We have the original 26 weeks of benefits and then we have the 13 weeks EB program, and now the new extended benefits. When does the voucher system come into play?

Mr. COGAN. The voucher system would come into play as the individual exhausted extended benefits. If the extended benefit——

Mr. HANCE. The present extended benefits, after the worker went through the entire 13 weeks.

Mr. COGAN. Right. Or, in the State where the extended benefits program was not in effect, such as New York, the individual would qualify after 26 weeks of regular benefits were exhausted.

Mr. HANCE. If the voucher system went into effect immediately after, I could see a reason for not allowing it for rehires. You might have some that might lay everybody off for a week so they could get on the voucher system.

But since the voucher system will not go into effect until the later time, it is hard for me to see what you would be trying to get at on the rehire provision.

Mr. **Cogan**. Well, your concerns about the rehire are well taken. It was a decision that we felt should be made in the interest of preventing an unnecessary subsidy. Not all individuals who qualify for FSC or for the voucher will have spent 39 or 26 weeks on unemployment. An individual can qualify by spending less time on unemployment in some States.

Mr. **Hance**. I could see that you would not want certain employers taking a calculated risk on when they could lay their employees off and save themselves some money and then bring them back at a later time and even benefit from that by then getting the benefit of the voucher system.

But with the way this system is set up, the way the voucher system would go into effect, I would doubt that very many employers would abuse it because to lay that many people off for a long extended period of time would be, I would think, detrimental to most companies. So I do not foresee the abuse that would come about.

Mr. **Cogan**. Well, one concern that we have is that most spells of unemployment are not 26 continuous weeks. Basically, what happens for most of the unemployed is they are unemployed for 10 weeks and then they are reemployed for some weeks and then they are unemployed for another 10 weeks. You have a lot of intermittent spells of unemployment, along with spells of employment.

And with that kind of turnover, an individual could eventually exhaust regular benefits, qualify for FSC and then the rehire problem might arise, and the problems associated with allowing them to rehire might arise.

Mr. **Hance**. Thank you, Mr. Chairman.

Chairman **Ford**. Mrs. Kennelly?

Mrs. **Kennelly**. Thank you, Mr. Chairman. First, Mr. Cogan, on page 8 you allude very quickly to this new program about youth, and you say the age of 22. Further down on the page you say, "Absent a provision to the contrary, some of the youngsters * * *". Well, you know, many youngsters at 22 have been working for years, are married and have children. It would appear from this description that you take for granted that anybody who would use this new program was in college or in school.

I would hope you would take a message back to the administration that they put something in there that would require that an individual be in school. I am not for this at all because I understand schooling and how much it costs these days. When you work to get your tuition and what you need, you need the minimum wage. I am not advocating your program.

But I do think that when you go back you should mention that youngsters at 22 often are—whether it be cyclical or structurally—unemployed people who are desperate for work and who would be very glad to take that 4 months and forget anything else.

I would like to continue a little bit with what Mr. Moore and Mr. Hance were talking about. Yesterday, I was at home in Hartford, Conn. Our largest employer laid off 2,000 workers last Friday. Exactly 1 year ago in January that same employer laid off 1,000 workers. No one was rehired during that year.

Now, when you say new employer, one of the things that I worry about is related to the discussions that went on all day yesterday with this employer. They are taking some of their work that is highly technical, and instead of hiring people who have skills, trained skills, that live in the area, they are sending this work to other countries where it can be done cheaper and using this plant as a possible assembly plant.

This would go right into what you are saying, that you could not have rehire. Your proposal would encourage that, further diminishing our economy and causing us more problems.

So I would agree with Mr. Fowler, please look at these issues because I think all you are doing is making America, once again, less competitive in the foreign trade situation, which I will not get into.

One other question, sir, and I know those were statements rather than questions. But this business about flexibility and the interest rate. I know Mr. Moore spoke very strongly about that, and we realize that interest only went into effect in April 1982. And yet, we heard all this morning that the program will have an enormous impact.

Now, if your voucher or this voucher program is based on economic projections as faulty as those programs were based on, because there was the premise that the economy would improve and let's just say circumstances of the recession continue. Would you be more flexible if this situation with the voucher system does not work, than it looks like you are going to be on the interest program?

Mr. COGAN. I am not sure what the question is.

Mrs. KENNELLY. The question is, Is this really just an experimental program for 1 year and not a program that will become permanent, that we are going into a wage subsidy program?

Is there flexibility there more than there is on the interest program?

Mr. COGAN. There is flexibility in how long the program will last. We have specified that it will continue for 1 year because we have had no experience with a program of this sort before, and we think that specifying that it would go for 1 year and evaluating it toward the end of the year to determine whether it should become a more or less permanent program is a wise way to go.

Mrs. KENNELLY. So you will be flexible?

Mr. COGAN. Yes.

Mrs. KENNELLY. More flexible than on the interest?

[No response.]

Mrs. KENNELLY. No answer, sir?

Mr. COGAN. Perhaps.

Mrs. KENNELLY. Thank you, sir.

Chairman FORD. Mr. Secretary, going back to Mr. Fowler's question earlier about the 30-week work test, presently it is 20 weeks and under the extension of the legislation that we are talking about today, the FSC extension, it would help, I think you mention, 1.3 million. And now we are talking about the 30-week test which would prevent 300,000 people from being eligible for the FSC benefits, is that correct?

Mr. **Cogan**. Yes.

Chairman **Ford**. Now, is it the intent of the administration in excluding those 300,000 to save money or are you really saying that it is a test to see whether or not they are connected to the work force itself?

I mean, basically which should this committee look at: to save money or see whether these people are connected to the work force?

Mr. **Cogan**. The administration has always felt that it is appropriate to provide longer durations of benefits to those with a longer attachment to the work force. That principle has been adopted in virtually all State laws, most State laws, and I believe that what we are doing here is just following along with that principle, 20 weeks for extended benefits and 30 weeks for Federal supplemental compensation.

Chairman **Ford**. Well, the connection to the work force, in many cases, though, I think we can see it would not necessarily mean that we would need 30 weeks to test to see whether or not they are connected to the work force.

I think there have been certain States that have already met that test, and I think 2 years ago States did in fact bring strong opposition to this proposal about the 30-week work test. I have not heard from the States yet. I think the States will discuss it. I think there is a representative here today who will testify about the 30 weeks. We have some problems, you know, with that.

I would also like to raise another question with you. You know, very few unemployment compensation exhaustees will qualify for public assistance programs now because of asset limitations, and I want to know if the administration will be proposing anything for those 300,000 recipients of unemployment compensation benefits who will be leaving the rolls within the next month or two. And there probably will be 1 million or slightly over 1 million right after the March 31 date.

I am concerned whether or not the administration will be proposing any legislation to respond to their needs. I mean, the unemployed people who are losing their homes or cannot pay their utility bills, people who are in dire need of assistance.

Will there be any relaxation at all of any of the public assistance regulations to qualify some of these people for public assistance?

Mr. **Cogan**. I wish I could answer that question. As you know, the public assistance programs that you have spoken about are handled by HHS and by the Department of Agriculture, so I would defer to representatives from those departments. I really do not know.

Chairman **Ford**. I'm talking about any health benefit coverage for those who have exhausted all of their benefits, unemployment benefits as well, and would not qualify for public assistance?

Mr. **Cogan**. I have not heard any of that.

Chairman **Ford**. Mr. Stark?

Mr. **Stark**. Thank you, Mr. Chairman.

I apologize, Mr. Cogan, for missing your testimony. But I have had a chance to review it. Just a couple of questions, some I gather not mentioned or addressed.

Last year we included a provision that is being used in three States to develop model legislation for short-term compensation, and work sharing. We feel in California that it has been beneficial, certainly in this time of high unemployment.

Can you tell me what the status of the model legislation is and when it will be available to the States and what Labor is going to do to promote it? Is there some way that the process can be speeded up because it is a possible way of easing the burden on those industries that are at least working with only minor reductions?

Mr. COGAN. Our preliminary evidence from California is that it is working quite well in that State. We have drafted model legislation and as I understand it we have circulated it amongst some interested groups of individuals.

Mr. STARK. I hope that will include the chairman of our subcommittee, who I think has an interest.

Mr. COGAN. It will be available for the committee at the end of the quarter.

Mr. STARK. Wonderful. I appreciate that very much.

Very few unemployment compensation recipients who are going to be without benefits soon are going to qualify for public assistance programs given the asset limitations requirements.

During the 1975–77 recession, less than 3 percent of those expirees or exhaustees qualified for AFDC and less than 15 percent qualified for food stamps. I suspect the changes we have made at the request of the administration in the AFDC program since then will further reduce the availability of these programs to jobless workers.

Have you considered supporting changes in public assistance programs that would make them more available to workers who have exhausted unemployment benefits and are continuing to search for jobs? Is there any plan on the part of the administration once we have run out of unemployment compensation, to help them in the minimal, almost subhuman allowances that Reagan has cut AFDC and food stamps to now?

Mr. COGAN. Congressman, I would like to respond, but unfortunately those welfare programs, food stamps, public assistance programs, are outside the jurisdiction of the Department.

Mr. STARK. That is what you call the Statue of Liberty plea. What you are suggesting is that we should have had Mr. Schweiker here before he escaped, is that right, or jumped ship, as the case may be?

Chairman FORD. What about health insurance, though, Mr. Stark, I am asking the administration, for unemployed workers? Have you discussed with other administration officials some type of health insurance coverage for these workers?

Mr. COGAN. No; I have not.

Chairman FORD. There has been talk in Congress about that.

Mr. STARK. I guess the question is, should the Labor Department at least make a recommendation, if not to us to the administration when you do pass the ball. At some point obviously unemployment compensation must and will expire. I do not think anyone believes that we will have it in perpetuity through the unemployment compensation insurance fund.

But do you not think that in your position, and understanding the nature of the problem perhaps better than any other Department, that it would be well advised for you to at least offer some suggestions as to what sorts of things would help these people, who we presume will still be looking for work?

Leaving the economy, their training and relocation aside, ought it not be incumbent upon you to recommend, if not to us to your fellow Cabinet Secretaries, as to what they should be looking for, or to Commerce on what they might do?

Mr. COGAN. I guess the question really comes down to how, if you want to provide health insurance, how should you provide it. And I quite frankly must plead ignorance on how to provide health insurance. I am sure that representatives from HHS and from the White House have discussed the issue of providing health insurance for workers. But quite frankly, I have not been involved in those discussions.

Mr. STARK. Will the chairman indulge me for one more question? This deals with the long range and the unemployment compensation programs in the various States. You have indicated in your testimony that no one has really come forward with a solution for the structural unemployment that faces this country. The President's new budget estimates a 10.7-unemployment rate this year, 9.9 in 1984, 8.9 in 1985, and 8.1 in 1986.

I think everyone in this room will agree we are facing a long-term problem, 4 years more at least of a very severe strain on the individual States and on their insurance funds. Some States' insurance funds by any other analysis would be considered bankrupt.

Now, I think that we have been kind of moving from one 10-week extension to a 6-week extension. But what realistically in the long run can be done? What about a program for the next 4 years?

For example, what about just forgiving all the States their indebtedness? Realistically, we know they will never pay us back. I think there is no question that your testimony indicates that you anticipate long-range unemployment. You know it will be there for the next 4 years. We hope it will not, but you know it and we know it, and yet we are dealing with 6-, 8- and 10-week extensions,

What about a program to deal with the next 4 years? Is there one coming? What ought it to be?

Mr. COGAN. Well, first, FSC is out of general revenues. It has no impact upon UI.

Mr. STARK. But I am talking about UI as well. Some States are bankrupt. I mean, they literally cannot fund their requirements. What are we going to do?

Mr. COGAN. States are repaying their outstanding loans even during the current economic malaise that we are in. I believe that loan repayments last year or this year were $600 million.

Mr. STARK. What were the increases?

Mr. COGAN. The increases in outstanding loans, new loans, somewhere around $9 billion as I recall.

Mr. STARK. There was $9 billion in increases and they paid back $600 million?

Mr. COGAN. Yes.

Mr. STARK. Now, in my math that is too many zeroes for me to handle with my shoes and socks on. But if they are going up at the rate of $9 billion and down at the rate of $600 million, 4 years from now I predict a shortage. That is all I can tell you. [Laughter.]

Even David Stockman would agree with me on that one, I think.

Mr. COGAN. Four years from now we forecast, even with the rather pessimistic economic assumptions, that the UI system will be taking in more in revenues than it is paying out, that it will be acting to reduce the deficits. I would not extrapolate from $9 billion and $600 million out 4 years.

The point is that, yes, this last year has been a very difficult one and we have had large outlays and a shortfall in revenues. But as I have pointed out earlier in response to questions, a large part of the existing debt is a result not of this recession.

Mr. STARK. Oh, no question. And a large part of the structural unemployment may not necessarily be a result of this administration's Reaganomics. I do not want to argue that.

But fault is a useless concept right now. Many States have a huge debt which I do not think that they can repay.

Mr. VAN ERDEN. Pennsylvania, Ohio, Michigan, and Illinois.

Mr. STARK. Let us leave North Dakota aside for a moment, what are we going to do? Let us consider those for which the problem may persist. What ought to be a good long-range plan for their insurance fund?

Mr. COGAN. Congressman, the States have for now close to 45 years had the freedom to set benefit levels, eligibility requirements, and tax rates.

Mr. STARK. And they have not done it.

Mr. COGAN. Oh, they have done it. The question that we have raised here is whether they have sufficiently financed.

Mr. STARK. That is what I mean, they have created their own deficit.

Mr. COGAN. In part that is true.

Mr. STARK. OK, I will buy that. That is all behind us. I do not care whose fault it was, whether they were Republican Governors or Democratic Governors. But we are there now. Mr. Moore will agree with me, we are there. And you will agree, we are there.

I do not care how we got there, really, because I do not think that the person who may not get his or her unemployment benefits really cares how they got there. Most of them I suspect today got there not from avarice or sloth or laziness or stupidity. They got there because the factory closed.

We have an unexceptable number of unemployed workers particularly in those 4 States. I guess what I am asking for is, ought we not to work on a long-range solution that deals with the next 4 years, because we know the problem is going to be around for 4 years?

That is my question. Do you not think that you and Chairman Ford should get together and work out a program for those 4 years for the major States? There will be some States who do not need the program, but obviously it is a big problem. That is my question.

Mr. COGAN. It would be an honor for me and a pleasure to sit down with Chairman Ford and try to work out a program to improve the solvency of State UI programs.

Mr. **Stark**. Let us remember that the only money in town is in the Federal Government, that the States are broke and the workers are broke and the employers are broke.

Mr. **Cogan**. There is no money in this town. We are running a $200 billion deficit.

Mr. **Stark**. Over at the Pentagon there are funds that could be used.

Mr. **Pease**. Will the gentleman yield for a moment?

Mr. **Stark**. Yes, I am finished. I would be glad to yield.

Mr. **Pease**. I would like to pick up on his idea I think the gentleman mentioned of just forgiving all of those loans. Maybe we could finance that with a severance tax on natural gas or something equitable like that, since we all use natural gas.

Mr. **Moore**. Would the gentleman yield? Can we make this ex post facto so that my State can come in and borrow a lot of money and be forgiven, too?

Mr. **Pease**. If you will agree to the severance tax on natural gas.

Mr. **Moore**. You are only talking about probably $50 billion. It is a minor amount of money.

Chairman **Ford**. Any questions by members of the committee? Mr. Campbell?

Mr. **Campbell**. Thank you, Mr. Chairman.

Just briefly, a couple of things that I would like to follow up on. And I was not even going to get into this, but, of course, the four States, when we look at the payment schedules we realize that the more generous systems vis-a-vis the whole system are the ones that are in trouble.

I can speak to unemployment because I had one of the counties in my district with 27.5 percent unemployment. We are not immune to it either in my part of the country. That is textiles and textiles were hit not quite as hard as automobiles, but they are very related.

The point is that any forgiveness of any loans comes out of some other program in the long run or adds to the deficit, is that not true?

Mr. **Cogan**. That is true.

Mr. **Campbell**. So, the rest of the country that is handling their problem winds up paying for whatever is done for any States that we forgive, is that not right?

Mr. **Cogan**. Yes.

Mr. **Campbell**. So, my people in South Carolina who have suffered through unemployment might have a reduction in other programs or benefits because we had to use that money to forgive some other place. Would that not be a logical conclusion?

Mr. **Cogan**. That is right.

Mr. **Campbell**. I just wanted to make sure that we all understood that.

Mr. **Moore**. Would the gentleman yield?

Mr. **Campbell**. Certainly.

Mr. **Moore**. Will the gentleman also agree, and I assume the administration will, that not only do you have a reduction in benefits in other programs, but also recurring high interest rates, all of the problems we have associated with these big deficits everyone agrees we ought to bring down?

All you are doing is increasing the deficits by this. You have some States involved and you know, if my State had known they did not have to cut benefits or cut taxes, all they had to do was make a loan and run up here and cry. We only have eight Congressmen and we do not have 30 or 40 like some of these States with problems, but I guess they figured that they had the political swat to be able to come up here and cry a lot, and have their loans forgiven or the interest rates reduced. We would have been borrowing money instead of raising taxes or cutting benefits.

I think we have a fairness issue regarding about 35 States in the Union, really 40, that have not taken advantage of this program. We have about 10 that are hardcore cases of borrowing consistently with no intentions of paying any of it back.

Mr. **Stark**. Would the gentleman yield?

Mr. **Moore**. I do not have the time.

Mr. **Stark**. I notice in the graph the implied idea that the more Congressmen the higher the debt. I just wanted for the record to point out that California, with the largest number of Congressmen, has never borrowed.

Mr. **Moore**. I think that is why you ought to be with us on this issue.

Mr. **Stark**. We usually are.

Mr. **Moore**. You ought to be with us on this.

Mr. **Campbell**. Mr. Chairman, we probably have gotten into an area that we shouldn't go into any more, but let me ask you a little bit about the unemployment figures. We got into a little sparring back and forth about structural and cyclical. Part of it is "transitional." I like to use that term.

I use that because I look at the industries that are hardest hit and I see the transition that they are going through. When they come back up to full production, yes, they will use fewer workers because they are modernizing where they have not been able to compete in the past, and that is transitional.

You can use any term you want to to describe it. I see it in my industries in my area and we see it all over the country. And the reason I bring that up is because that is where your job training aspect has got to come into this equation. I am very, very interested in it. I am very interested in additional proposals that may be coming from the administration on increasing the job retraining.

I wonder if, other than what you have put in your presentation here, which is the setaside for States, if you anticipate an expansion of our job-retraining program or an emphasis on that in the proposal that the administration makes as far as a jobs program?

Mr. **Cogan**. Yes, Congressman, we do. Under title 3 of the Job Training Partnership Act, we provide funds for retraining displaced workers. The current appropriation for 1983 is $25 million. We are going to or we have requested an appropriation of $240 million for fiscal year 1984. That is the largest amount spent on this kind of problem in the Nation's history.

Mr. **Campbell**. And the larger amount of that money would be spent in areas that are now the hardest hit, such as those States that owe the money back to the Federal Government; is that not correct?

Mr. **Cogan**. That is correct.

Mr. CAMPBELL. All right, I just wanted to make sure that we had understood our resources a while ago in this.

Another question was asked about unemployment rates and we talked about cyclical, and structural, and so forth, and getting away from those terms. We had 7.5 percent, approximately, unemployment in January 1980 and we went up 10.8. It started down now. We are about 10.4.

Historically, what is the estimate now that you give as a rate of the hardcore unemployed among the unemployment figures of today?

Mr. COGAN. I would like to give you a rate, Congressman, but I really do not know. Somewhere around, I guess, 6 or 7 percent seems to be the conventional wisdom of the Council of Economic Advisers.

Mr. CAMPBELL. All right. Of those that are unemployed and I notice that you used some of the tests for employment in the year before, do you have any figures on those that were regular workers as opposed to those who were sporadic workers, types of workers historically unemployed off and on through the years as opposed to those who are out now who have been long-term gainfully employed?

Mr. COGAN. We have some data from a study of recipients of Federal supplemental compensation as to how long they have worked. Unfortunately, I know we promised this committee that we would have the report completed by the end of January. We are running a little bit behind and hope we can deliver the report sometime during next week.

Mr. CAMPBELL. I will not go any further with this. I look forward to seeing that. I think it would tell us a great deal.

Thank you, Mr. Chairman.

Chairman FORD. No further questions?

Mrs. KENNELLY. Yes, Mr. Chairman. Just one quick one.

We noticed the first time we saw the figures go down that they went down for those who had been unemployed 5 or 6 weeks. We saw a continual increase in those that had been unemployed over 6 months. In fact, I think the highest was between 18 and 19 weeks in the January figures.

Does this not give you a little cause to worry that this new program is going to only address people who are going on now, are newly unemployed, and that the long term will be forgotten?

Mr. COGAN. No; the primary thrust of our proposals is at the long-term unemployed. An extension of FSC is for the long-term unemployed. The job voucher program is for the long-term unemployed.

Generally, we are going in the direction of trying to provide some assistance to the long term as opposed to the short term.

Mrs. KENNELLY. Thank you.

Chairman FORD. Mr. Cogan, in light of that, according to the January employment survey, 11.4 million people were out of work, this represents a reduction from the 12 million in December.

The January decline in unemployment was concentrated among the short term, those who were unemployed for a period of less than 5 weeks. But the number of those who have been unemployed for at least 6 months continued to increase in January. I think we had figures from 18 to 19.4 weeks.

Now, how do you explain that if you are talking about the long-term unemployed, but in January those figures, we had a reduction in the work force from 12 million to 11.4 million. But even in January you have the person who had been unemployed, those persons who had been unemployed from 18 weeks increased up to 19.4 weeks in January. I am talking about those who had been unemployed for 6 months or longer.

Mr. COGAN. Typically what happens as we come out of a recession, those that have been laid off most recently are the first to be recalled, and that tends then to push up the average duration of unemployment among those that remain unemployed.

Chairman FORD. But those who have been unemployed for 6 months continues to increase in weeks from 18 to 19.4 weeks. So what happens to those who have been unemployed for a while?

Mr. COGAN. I believe somewhere around 2½ million individuals were unemployed 6 months or more. Of those, I think—what are our estimates of the number that are receiving FSC? Seven hundred thousand are receiving FSC.

Even with our current program, we are not reaching a significant portion of those long-term unemployed individuals.

Chairman FORD. Thank you, Mr. Cogan, and the other officials of the Labor Department for coming over here today. The committee would like to thank you, if there are no further questions. We will call on you. Staff will submit a series of questions—some have already been raised—but just for the record for the Labor Department to respond to, if you do not mind.

Mr. COGAN. Thank you, Mr. Chairman.

[The following letters were submitted for the record:]

Stark P.31
Comity

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JOHN MATLOCK
ADMINISTRATIVE ASSISTANT

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LEGISLATIVE DIRECTOR

April 6, 1983

The Honorable Daniel K. Benjamin
Acting Assistant Secretary for Policy
200 Constitution Avenue, N.W.
Room S25-24
Washington, D.C. 20210

Dear Acting Secretary Benjamin:

On February 8, 1983, Assistant Secretary John Cogan appeared before the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means to testify on a number of unemployment compensation issues.

At this hearing, Congressman Pete Stark was particularly interested in the Department of Labor's efforts to assist States that are interested in establishing a short-time compensation program. Congressman Stark has asked that I present the following questions to you as a follow up to the discussion at the hearing.

(1) P.L. 97-248, Section 194(b)(1) directs the Secretary of Labor to develop model legislative language which may be used by States to enact short-time compensation (STC) programs. What has been accomplished to date?

(2) The Secretary is also directed to provide technical assistance to States to develop, to enact, and implement STC programs? What assistance has been given to States thus far?

(3) What additional assistance is planned?

(4) Has assistance been initiated by DOL, or is DOL waiting for States to initiate requests for assistance?

(5) The Secretary is also directed in subsections (b)(2) and (g)(1) to conduct a study, or studies, on the effects of STC programs developed pursuant to this law. What has been accomplished? What is planned?

(6) What individuals or groups have been, or will be, consulted in the development of criteria and guidelines for any studies conducted pursuant to subsections (b)(2) and (g)(1). Has congressional input been requested? Will it be requested in the future?

(7) What questions and/or factors for measurement are intended to be addressed in these studies?

(8) With passage of the short-time compensation legislation, it was the intent of Congress that States be able to use this alternative to layoffs. A number of States which are considering State STC legislation need assurance that enactment of STC legislation will not effect the way DOL treats their UI programs for issues like the cap on repayment of loans.

Given the experience of the 3 States that have STC programs in operation, there is no evidence that there will be an increase in benefit costs. There is also clear evidence from Arizona that there is no increase in the administrative costs for a STC program.

May the States have your assurance that a STC program will not jeopardize their qualification for programs like the cap on repayment of loans and other programs for the States?

I would appreciate your response to these questions as soon as possible so that they may be included in the hearing record.

Thank you very much for your assistance.

Sincerely,

HAROLD FORD
Chairman

HF/fcc

U.S. Department of Labor
Assistant Secretary for Policy
Washington, D.C. 20210

MAY 12 1983

The Honorable Harold Ford
Chairman, Subcommittee on Public
Assistance and Unemployment Compensation
House Ways and Means Committee
2305 Rayburn Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter dated April 6, 1983. In that letter you asked, on behalf of Congressman Stark, several questions concerning short-time compensation. The following answers correspond by number to the questions in your April 6 letter.

(1) Draft model language was transmitted by Mr. William B. Lewis to you on April 11, 1983. That draft included only one of several possible models. The Department of Labor is now revising the draft to include additional models.

(2) Thus far, technical assistance by the Department to the States has been in the form of:

(a) The provision of draft model legislative language.

(b) Comments via telephone or in writing, to several states on proposed laws.

(3) (a) The Department will distribute model legislative language and respond to questions about it.

(b) Develop and disseminate federal reporting instructions to states who have or who are developing STC laws.

(c) Comment on proposed legislation.

(4) (a) The drafting of model legislative language and reporting instructions was initiated by the DOL.

(b) Comments on all proposed UI legislation, including STC, are developed by DOL and transmitted to States.

(5) (a) A solicitation for bids by outside contractors to conduct a study of short-time compensation has been drafted.

(b) Funds have been budgeted for the study.

(c) The draft solicitation has been received within the Employment and Training Administration of the DOL.

(d) It is planned to seek comments from other DOL agencies, issue the solicitation, and fund a study by the end of the fiscal year.

(6) There has been no consultation outside of the DOL yet. Consultation will be done by the DOL and the contractor selected for the study before the study methodology has been finalized. Consultation will be with business, labor, Congress, and State Employment Security Agency officials.

(7) All of the factors listed in P.L. 97-248 Section 194 (b) (2) and (g) (1) will be addressed to some degree by the study.

(8) Eligibility for the cap on loan repayments depends upon the State's total benefit payment level and tax effort. Whether or not a State which passes a short-time compensation law loses qualification for the cap on repayment of loans would depend on the specifics of the STC law passed by the State. To the extent that the State's STC law were to raise the UI benefit cost rate, the State would have to enact other provisions with offsetting cost reductions or revenue increases to remain eligible for the cap.

I hope these answers prove helpful to you and Congressman Stark. If I can be of any further assistance, please let me know.

Sincerely,

Daniel K. Benjamin
Acting Assistant Secretary
for Policy

Chairman **Ford**. The Chair at this time would like to recognize Mr. Oberstar of Minnesota, Ms. Oakar of Ohio, and Mr. Eckart of Ohio, the next three witnesses to come before the committee.

The Chair will recognize you in that order: Mr. Oberstar, Ms. Oakar, and Mr. Eckart.

Mr. Oberstar, I want to thank you. You are the leadoff witness. And I would just like to say for the record that there is legislation that is before the Congress that has been introduced by you and it is before this subcommittee. We have not taken any bills up right now in the markup session, but hopefully next week your bill, if the committee decides to drop a clean bill into the hopper in the coming weeks, will be taken into consideration.

The Chair recognizes you at this time.

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. **Oberstar**. Mr. Chairman, thank you very much for the opportunity to share some thoughts with you and our colleagues on this committee. The task facing this subcommittee may well be the most important business of this 98th Congress, certainly of its early months. Millions of unemployed Americans around this country anxiously await the outcome of your deliberations. They are running out of money, running out of time, running out of good will from those who have withheld on foreclosures, who have withheld collection of debts, who are stretching out the payments, to help people who through no fault of their own have lost their jobs.

The work of your committee, Mr. Chairman, is going to directly affect the lives of these millions of people.

I have, as you said, been before this committee several times. Regrettably I am beginning to feel very comfortable here. I would rather that we not have to have these meetings. I would rather that the economy turn around and that people in the steel mills, the iron ore mines of my district, the auto factories around this country, and the many small businesses go back to work. These people themselves would prefer to be in productive work instead of anxiously hoping for this committee to report out an extension of unemployment compensation.

Last year I came here to support your bill, Mr. Chairman, which called for a 13-week extension of unemployment compensation. I appreciate the efforts that you have made. You literally are a champion among those people who have lost their jobs all around this country.

I wish that this subcommittee and the Congress as a whole had done more for the unemployed in 1982. Had they done so we might not be here today at this crucial juncture.

Last year I asked this subcommittee to restore the State trigger rates to their pre-September 25, 1982, levels of 4 percent. Second, I asked that the subcommittee repeal the provision of the Reconciliation Act of 1981, which changed the way in which the insured unemployment rate is figured. The act excluded all extended benefit recipients from the calculation of the insured unemployment rate.

Third, I asked the authorization of sub-State triggers for the payment of extended unemployment compensation benefits.

I come back to make the same plea. I think those proposals are still sound. I believe they ought to be enacted in the 98th Congress. I have included them in H.R. 233 which I introduced on this first day of this session. It now has 30 cosponsors.

What we would do with this legislation would be to extend the supplemental program for 6 months and authorize an additional 10 weeks of benefits compensation under that program.

I am pleased that the President has supported extension of the program. He does not go far enough. It does not do enough for the distressed areas of the country.

Only 20 States and Puerto Rico are triggered onto the extended benefits program. Without the Federal supplemental program, workers in the remaining 30 States will have no benefits other than the FSC.

FSC is an emergency stopgap program that Congress passed last summer, but it has deficiencies, and those deficiencies ought to be corrected.

I want to emphasize once again to the members of this committee the need to establish a program of sub-State triggers. The way I envision it is that we continue with the present extended benefits program and Federal Supplemental Compensation program. On a parallel track we began the implementation of a sub-State trigger program. It will take quite some time to implement that program. In the long run it is the best expression of distributive justice, the best and fairest treatment of those who have the greatest need. Through more efficient targeting, it will result in expenditure of less Federal funds in the long run. In the short run, however, we have got to have extension of existing programs.

Now, the Commerce Department has designated 183 economic areas throughout the United States. Those would be the basis for my sub-State trigger proposals. They cross State lines in recognition that economies do not stop at political boundaries. They would be a starting point for discussion.

Maybe there is a better way of establishing a sub-State trigger. I have given this issue considerable thought. The economic areas are very responsible starting points. They recognize that workers in one State or an industry in one State draws workers from another State. They recognize that there are certain commuting patterns among workers, and these cross State boundaries and county lines. The concept is a good starting point for establishment of a sub-State trigger provision.

In 1975 the House passed authorizing legislation. It was dropped in conference with the Senate.

We would be doing the industries of this country and the workers of America a great favor by establishing a responsible, more carefully targeted program of extended benefits in which you can recognize the varying severity of unemployment within economically diverse States.

The recessions of the past 8 years have put a very heavy burden on this country and on the States throughout our land. The majority of States have been forced to borrow from the Treasury for their unemployment funds. The outstanding debt is $10 billion according to recent figures.

Some say the recession is reaching bottom. Those who are out of work say they are so far down they have to look up to see bottom. Outlays for unemployment compensation are going to rise in this fiscal year to nearly $37 billion. So far as an responsible economist can project, we are going to have unemployment well above 7 percent into the late 1980's. That, at any rate, is the calculation of the recently completed Social Security Commission report which projects 7½ percent unemployment until the end of this decade.

State debts are going to continue to grow. Thirty-five States are expected to borrow from the Treasury in 1983 and more in 1984. Sixty-five percent of the long-term unemployed of this country are concentrated in the Northeast-Midwest region of this country, the Middle Atlantic, New England, and Great Lake States. Five of those States have 90 percent of the debt to the Federal Government for borrowings for unemployment compensation, including the State of our two colleagues from Ohio, Pennsylvania, Michigan and Wisconsin.

I would like to quote from a letter I received from the president of a steelworker local in my district.

> In Minnesota statewide the unemployment rate is 8.7 percent. In northern Minnesota where we mine the iron ore for the steel mills of this country, the unemployment rate overall is 24 to 26 percent. Among steelworkers in northern Minnesota the unemployment rate is over 80 percent. But our members never qualify for some of the Federal unemployment extensions because the whole State of Minnesota is used as a basis for calculating the unemployment.

I would like to submit a copy of the letter for the record at the conclusion of my statement, if the Chairman would accept it.

Chairman Ford. It will be included in the record.

[The letter referred to was not available.]

Mr. Oberstar. An editorial from the Minneapolis Star and Tribune supporting extension of unemployment benefits and targeting those benefits to sub-State areas of greatest need.

[The editorial referred to follows:]

[From the Minneapolis Star Tribune Jan. 10, 1983]

Supporting the Long-Term Unemployed

At the Reagan administration's behest, Congress in 1981 severely restricted eligibility for extended unemployment compensation benefits. Minnesota's Rep. James Oberstar now wants Congress to undo most of its 1981 action. Oberstar has a good case for two of his central proposals. Experience in the longest and most severe postwar recession has shown that the restrictions go to far.

Unemployed workers usually are entitled to 26 weeks of unemployment benefits. Thirteen weeks of extended benefits are added when the unemployment rate exceeds a certain level, on the theory that workers need further assistance as they compete for fewer jobs. Congress then can authorize temporary emergency aid, which it has recently done.

Until 1981, all unemployed workers became eligible for extended benefits when the national unemployment rate exceeded a specified level. President Reagan asked, and Congress agreed, to abolish this national extended-benefit "trigger." Doing so made sense. It eliminated the anomaly of providing extended benefits to workers in low-unemployment regions. Each state now must qualify for extended benefits on its own.

But the state-by-state approach has problems of its own: Unemployment may vary greatly within a state like Minnesota. Unemployment in the Twin Cities and some other areas of Minnesota is still relatively low—low enough to prevent workers on the Iron Range and in other high-unemployment areas from qualifying for extended benefits.

Oberstar wants to split the difference between a too-liberal national extended-benefit trigger and too-restrictive state triggers. He proposes to measure unemployment—and provide extended benefits—in economic areas smaller than a state.

Oberstar's proposal is not new, but it is controversial, and it raises a number of intricate questions. For example, some economic areas cross state borders, but extended unemployment benefits are paid jointly by the state and federal governments. How should extended benefits then be treated in areas that occupy parts of two or more states? Oberstar is confident that the problems can be overcome. We agree.

In 1981, Congress also decided that the "insured unemployment rate" should not count people who have exhausted regular benefits. (The insured rate measures unemployment only among those covered by compensation. The overall rate is generally several percentage points higher.) The insured rate is used to determine whether workers in a state qualify for extended benefits. A long recession may cause a decline in an insured rate that excludes workers who have exhausted regular benefits. The decline can cause a state to lose extended benefits, even if the state's overall unemployment rate continues to increase.

Oberstar would correct this Catch 22 by again including a portion of the long-term unemployment in insured unemployment calculations. That too is a sound proposal. Combined with Oberstar's concept of an economic-area trigger, it would make the unemployment compensation system more responsive and fair.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Chairman, Members of the Subcommittee. Regrettably, double digit unemployment has made me feel very much at home before this subcommittee. I testified here twice last year; first, in favor of the Chairman's bill H.R. 6085, to authorize a 13 week emergency federal supplemental compensation program; and later, after the Congress included a version of that legislation in the Tax Equity Act of 1982, in favor of an extension of the Federal Supplemental Compensation program.

The Chairman and many of the Members of this subcommittee have done a tremendous job on behalf of the nation's unemployed and their families. You have worked to insure at least some cushion for the terrible hardship of unemployment which over 11 million Americans and their families now face.

I wish that the Subcommittee had been able to do more in 1982 for the unemployed. When I testified before this Subcommittee last year, I asked you to consider recommending:

Restoration of state trigger rates to their pre-September 25, 1982 levels;

Repeal of the Reconciliation Act of 1981 provision which changed the computation of the insured unemployment rate (IUR) to exclude all extended benefit recipients from the rate; and,

Authorization of sub-state area triggers for the payment of extended benefits. This proposal would recognize the wide diversity in unemployment rates which can exist in large, geographically diverse states.

I believe each of these recommendations is sound. The 98th Congress should enact them. I have included these proposals in H.R. 238, the legislation which I introduced on January 3, 1983. In addition, H.R. 238 would extend the Federal Supplemental Compensation program for an additional six months and authorize an additional 10 weeks of compensation under that program. I was pleased that President Reagan recognized the economic reality of high unemployment by supporting the six month extension in his State of the Union message. It is crucial for the House to act on such legislation within the month, legislation that will include substantially extended unemployment compensation for those workers who cannot find a job during a period of double digit unemployment.

At present, only twenty states and Puerto Rico have triggered on extended benefits. Without FSC, workers in the remaining thirty states would have no benefits other than FSC.

The Reconciliation Act severely weakened the permanent federal unemployment compensation program. FSC is emergency, stop gap program which Congress passed expeditously last summer. We should correct the deficiencies in the permanent extended benefits program. I urge this Subcommittee to include, in the legislation it sends to the full Committee, provisions to repeal increases in the state trigger and the elimination of EB and FSC recipients from the computation of the insured rate.

The other major provision of my bill authorized the establishment of sub-state triggers. Substate triggers would target more effectively extended benefits and would remove the inequity under the present system by which workers in distressed areas may be ineligible for extended benefits because the overall state unemployment rate is below the state trigger. My bill would use for these areas the Economic areas developed by the Bureau of Economic Analysis of the Department of Commerce. The Bureau has divided the United States into 183 of these areas. The areas cross state lines in recognition of the economic reality of unemployment which respects no political boundaries.

The areas proposed in my bill are a starting point for discussion. There may be better areas. I selected these areas as the basis for my bill because they are existing areas based on standard metropolitan statistical areas, and based upon the actual commuting patterns of workers in the areas. If this Subcommittee can develop a better means of establishing sub-state areas for the trigger mechanism, I would support those efforts fully. I just want to see the Congress take some step toward authorizing sub-state triggers. In 1975, the House passed such legislation, but the sub-state provision was dropped in Conference.

I recognize that increasing the number of units by which benefits can be triggered increases somewhat administrative difficulties. I would point out to the Committee and to the bureaucracy that it is a whole lot more difficult to be unemployed for endless weeks. It will take time to designate the areas and to develop the data compiliation procedures. It may take a very long time. I hope the depression will have ended by that point. The concept, however, is sound and worth doing. If we do not act now, the mechanism will not exist when we face another recession.

My final point is an expression of appreciation for the willingness of this Subcommittee to address the critical problem of the states which have experienced the most severe unemployment problems. Insolvent state unemployment compensation funds owe the federal government approximately $10 billion.

A number of provisions in law serve to discourage states from borrowing and to encourage them to revise their levels of benefits and taxes to keep their trust funds solvent. Most of the disincentives were enacted in the belief that recessions are short and unemployment rates fall quickly once recovery begins. Some of the changes enacted in 1981 were delayed until 1982 because everyone expected a robust economy by then. These assumptions all turned out wrong.

The three recessions of the past eight years came too close together for state trust funds to build up adequate reserves during the recoveries. As a result, a majority of states have been forced to borrow from the U.S. Treasury. Total outstanding debts amounted to $8.5 billion at the beginning of fiscal 1983. The current recession only now is reaching bottom and the recovery is expected to be weak. According to the Labor Department, these gloomy predictions translate into:

Total outlays for unemployment compensation will rise to $36.9 billion in fiscal 1983, and $28.8 billion in 1984;

The national unemployment rate may remain above 7 percent until 1988;

State debts will not peak until 1985, rising to $35.8 billion;

Thirty five states are expected to borrow from the Treasury in 1983 and 39 states will borrow in 1984; and

The Treasury will collect $8.3 billion in interest on state debts between 1983 and 1988.

Instead of an economic recovery that will allow state trust funds to get back on solid financial ground, the slow growth projected for the economy in the next few years will force states to maintain high levels of outlays on unemployment compensation and to pay interest and penalty taxes on continued borrowing. These penalties were intended to hit after the end of the recession. Instead, they are being imposed on the very states that are suffering most and can least afford the extra taxes.

The States which have been hit hardest by the national recession are those least able to bear the interest costs. Illinois, Michigan, Ohio and Pennsylvania owed 77 percent of the debt as of November 30. These four States and Wisconsin will owe 90 percent of the $500 million in interest charges due the Federal government on October 1, 1983.

I urge this Subcommittee to approve legislation suspending interest accrual until we experience economic recovery and a return to low unemployment. In addition, that legislation should provide a mechanism for settlement of the old debts of the State funds to the federal government.

In conclusion, I want this Subcommittee to know that I would be very pleased to work with you in the House to secure passage of comprehensive legislation to help alleviate the critical unemployment problems facing our Nation. Our state governments and the nation's unemployed need that kind of legislation. We need the best possible bill out of the Ways and Means Committee.

Chairman **Ford**. Thank you.

Ms. Oakar.

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. **Oakar**. Thank you, Mr. Chairman. And I want to commend you and members of this very fine subcommittee for having these hearings today.

Chairman **Ford**. Excuse me a minute.

Mr. Oberstar, would you please pass the mike to Ms. Oakar, please?

Ms. **Oakar**. Mr. Chairman, I want to thank you for allowing me to testify. I want to thank you and the members of the subcommittee for holding these hearings. I want to echo and not repeat what my friend from Minnesota said. I applaud the work you have done in this committee concerning unemployment. And I do not think there is a more important subcommittee and a more critical period in terms of acting than you are charged to do. So I know you have a lot of work ahead of you.

Mr. Chairman, I come not only as an interested Member of Congress from a State suffering terribly high unemployment, but I also come as a former member of the National Commission on Unemployment Compensation. As you may know, the Speaker appointed me to this Commission in 1977, and for 2½ years we took a look comprehensively at the problems of unemployment compensation. It was the first time that a really comprehensive review had been done, we were told, in about 40 years since its inception. It was chaired by Wilbur Cohen, the distinguished former HEW Secretary, and the Commission represented a cross section of bipartisan interests from the business community, labor leaders, et cetera.

So I really feel that the work that we did then may be of some use today, because unlike the Social Security Commission, we did not get the notoriety and we did not have an immediate crisis. Now we do.

So I want to commend you and your very important members to the report. I think a lot of what is in this report covers a whole range of interests that is relevant today.

I will skip over some of my testimony. Suffice it to say that I believe that we should extend unemployment compensation for at least another 6 month period. You know and I know that it expires in March. We do not have any kind of relief in sight. And that, I think, is absolutely critical.

But the second item that I want to touch on is the current situation concerning the loan and interest payment required from those States having large loan balances. It is simply a statement of fact that many of these States are on an extremely precarious footing from a fiscal point of view. They have suffered unusually severe economic conditions. These conditions have caused many of these states to deplete their unemployment trust funds, and compel them to request loans from the Federal Government.

Aggravating the problem, in my judgment, is the current requirement enacted in July in 1981 by Congress that all Federal loans carry a 10-percent interest charge after April 1, 1982. The practical result of this provision has been the imposition of a very heavy burden on those States that have been struck the hardest during this recession. And let me just cite very briefly a few statistics.

At the end of 1982, 22 States owed almost $11 billion to the Federal Government for loans to pay unemployment benefits. An additional 14 States could very well become insolvent by the end of 1983. Pennsylvania, Michigan, Illinois, and Ohio owe almost 80 percent of this $11 billion debt. If Wisconsin is included, these five States together will account for 90 percent of the $500 million in interest payments that will come due in October 1983.

I would like to use my own State of Ohio as an example. When I served on the Commission, it was very interesting to me that my state of Ohio from 1977 to 1980—when we reviewed the problem—had only borrowed once and had paid back the loan. How different the circumstances are today. And our State was never irresponsible in terms of the tax and so on. In fact, Ohio has just enacted another increase in the taxrate schedule, et cetera.

However, on December 31, 1982, Ohio's total unemployment rate stood at 14.1 percent with 712,000 persons out of work. Those are the ones you can calculate by the way. And on December 31 Ohio's outstanding loan balance to the Federal Government, unlike what it was a couple of years before, was $1.65 billion. On December 10 then Governor Rhodes requested an additional $592 million to pay unemployment benefits in the first 3 months of 1983. Ohio's loan balance before April 1, 1982, was $992 million, an amount on which Ohio did not have to pay the 10 percent interest. However, Ohio has had to borrow $700 million more since April 1, 1982, and this amount is being charged the 10-percent interest. This mirrors what other States are suffering.

Ohio's interest due to the Federal Government has been averaging $185,000 a day since April 1, 1982. Keep in mind our State prior to 1980 had not been a heavy borrower of these funds.

Clearly, States in circumstances comparable to those of Ohio are being asked to bear an additional financial burden at the very time their economies are suffering frostbite from the frigid climate of the current recession. Certainly questions can be raised as to why these States did not take prudent fiscal actions beforehand in anticipation of a possible downturn in the national economy. However, these questions tend to become academic when asked in the immediate context of those States whose economies have suffered worst from the recession.

If you take note, certain States like Michigan and Illinois, Ohio, et cetera, have bit the bullet in enacting further legislation. In my judgment, Congress must act now on some form of legislative remedy that would relieve at least temporarily the loan and interest payment obligations of those States that have had persistently high unemployment and as a result heavier benefit costs.

If I might, I would like to recommend a few suggestions, and my recommendations really are the minimum in terms of what we should do. The Commission recommended for the period of time that we were working on, from 1977 to 1980, that we forgive the debts of those States owed to the Federal Government. So my recommendations I think are very modest, and I say that they are the minimum in terms of what we should do.

The ideal, it seems to me, is to just forgive the debts and go on and give these States a chance to come to grips with this, providing they have acted in good faith. One suggestion, though, in terms of the minimum that we should do would be to extend the period for repayment of a loan without penalty by a State having a persistently high unemployment rate at or above the national unemployment rate.

For example, if the Secretary of Labor determined that a certain State appeared very likely to experience an unemployment rate high enough to merit indefinite extension of the repayment period, such an extension would be granted, but on the condition perhaps that the State should take whatever steps were necessary to assure the solvency of its trust fund reserves.

Another suggestion would be to waive the payment of interest by a State having a high rate of unemployment and a large outstanding loan balance. The waiver of the interest payment could be done either in conjunction with the extension of the loan repayment period or separate from it. Again, the waiver of the interest obligation could be coupled to a condition that a State establish an effective method for assuring minimum solvency to its trust fund reserves.

On the question of assuring solvency to the States' and Federal unemployment trust funds, I would like to close my testimony by suggesting that Congress consider the recommendation of the National Commission on Unemployment Compensation to establish the Federal taxable wage base as a percentage of the national average wage.

What this means is that the Federal taxable wage base as a certain percentage of the national average wage would increase automatically whenever wages increased. Since each State's taxable wage base must at least equal the Federal taxable wage base, each State's taxable wage base would automatically increase as well.

The National Commission specified that the Federal taxable wage base should equal 50 percent of the national average wage in 1983, a base of $8,000, and should gradually increase in 2-year increments until the taxable wage base equalled 65 percent of the national average wage in 1989, a base of $16,000.

The National Commission arrived at this recommendation after much public testimony and really spirited debate. The Commission's conclusion was that so many States had become or were becoming insolvent because of a steady decline in the taxable wage base ratio. That is, the States had failed to increase their taxable wage base relative to rises in total wages.

In its final report, the National Commission pointed out that the declining ratio of taxable to total wages had led to a shortage of funds in many States, making it difficult for these States to cover their unemployment benefit costs. As the Commission noted, because unemployment benefits are wage related, rises in wage levels mean increases in fund liabilities.

If the taxable wage base is not adjusted periodically, increases fail to keep pace with increases in liabilities. This is especially true in a prolonged recessionary period, when high unemployment puts pressure on States' trust fund reserves. This is precisely the situation in which so many States find themselves today.

Mr. Chairman and distinguished members of this committee, I appreciate your attention to these concerns and I hope we can work together to fashion a legislative remedy that addresses the most urgent unemployment compensation problems that we are experiencing today.

[The prepared statement follows:]

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Good morning, Mr. Chairman, and distinguished members of this committee. I wish to thank you for allowing me this opportunity to testify on the subject of unemployment compensation, insofar as it concerns the expiration of the Federal Supplemental Compensation Program on March 31, 1983, and the solvency of State and Federal unemployment trust funds.

I approach a discussion of these issues not only as an interested Member of Congress from a State suffering the hardships of high unemployment—Ohio—but also as a former member of the National Commission on Unemployment Compensation. As you may remember, the National Commission met numerous times between 1977 and 1980 to hear public testimony and to make recommendations for possible solutions to the problems associated with the financial solvency and benefit adequacy of the unemployment compensation program. It is my belief that many of the Commission's recommendations merit consideration by this Congress as legislation is developed to address the most urgent unemployment compensation issues.

In my testimony today, I will concentrate on two specific items: First, I will argue in favor of extending the Federal Supplemental Compensation Program beyond its March 31, 1983, expiration date. Second, I will stress the importance of some form of congressional action to suspend loan and interest repayment—on a temporary basis—for those States having persistently high unemployment. On this point, I would also like to discuss briefly one specific Commission proposal for insuring solvency to the States' and Federal unemployment trust funds.

As all of us know, the Tax Equity and Fiscal Reponsibility Act of 1982 set up the Federal Supplemental Compensation Program to provide additional benefits for up to a maximum of 10 weeks in any State that had paid extended benefits after June 1, 1982. This program is scheduled to expire on March 31, 1983.

I believe that Congress should enact at least a 6-month extension of the Federal Supplemental Compensation Program in view of the continuing high unemployment in many States.

Despite the optimistic assurances from the administration that certain indicators suggest a bright glimmer of recovery hovering on the horizon, a prolonged economic winter of discontent still blankets our national landscape and chills the spirit of millions of unemployed Americans. Millions of Americans who have been jobless for so long and have tasted the bitter pill of frustration so often in their search for work have come to depend on their unemployment compensation benefits as vital to their maintenance of a basic standard of living.

During these bleak days, while our economy continues its struggle to regain genuine strength, we must assist these unemployed workers in whatever way we most reasonably and responsibly can. This is why Congress must enact an extension of the Federal Supplemental Compensation Program. If we fail to act on this extension, about 1 million unemployed workers would stop receiving benefits after March 31, 1983. These 1 million workers would increase the percentage of those unemployed persons not receiving benefits to a historic high of 60 percent. And this would happen at the very time when the national unemployment rate has been at a post-World War II peak.

In my judgment, Congress should enact at least a 6-month extension of the Federal Supplemental Program to run through September 30, 1983, and to be funded from general revenues. Ideally, this extension would give hundreds of thousands of unemployed workers a little bit more breathing room while they are pursuing their re-employment prospects. At the same time, the Federal Government, business, and labor should cooperate in a good-faith effort to explore the most feasible options for rebuilding or rehabilitating our basic industries in order to get our plants and factories operating at maximum capacity again.

The second item I'd like to touch on is the current situation concerning the loan and interest payments required from those States having large loan balances. It is simply a statement of fact that many of these States are on extremely precarious footing from a fiscal point of view and have been wrestling with the grim reality of the recession in terms of business failures, factory slowdowns, and growing unemployment. Unusually severe economic conditions have caused many of these States to deplete their unemployment trust funds and compelled them to request loans from the Federal Government. Aggravating this problem is the current requirement—enacted into law in 1981 by Congress—that all Federal loans carry a 10-percent interest charge after April 1, 1982. The practical result of this provision has been the imposition of a heavy burden on those States that have been struck the hardest during this recession. Let me cite a few pertinent statistics on this point.

At the end of 1982, 22 States owed almost $11 billion to the Federal Government for loans to pay unemployment benefits. An additional 14 States could very well become insolvent by the end of 1983. Pennsylvania, Michigan, Illinois, and Ohio owe almost 80 percent of this $11 billion debt. If Wisconsin is included, these five States together will account for 90 percent of the $500 million in interest payments that will come due on October 1, 1983.

If I may, I would like to use my own State of Ohio as an example for illustrating the seriousness of this situation.

On December 31, 1982, Ohio's total unemployment rate stood at 14.1 percent, with 712,000 person out of work. On December 31, Ohio's outstanding loan balance to the Federal Government was $1.65 billion. On December 10, then-Gov. James Rhodes requested an additional $592 million to pay unemployment benefits in the first 3 months of 1983. Ohio's loan balance before April 1, 1982 was $992 million, an amount on which Ohio did not have to pay the 10-percent interest. However, Ohio has had to borrow $700 million more since April 1, 1982, and this amount is being charged the 10-percent interest. Ohio's interst due the Federal Government has been averaging $185,000 a day since April 1, 1982.

Clearly, States in circumstances comparable to those of Ohio are being asked to bear an extra financial burden at the very time their economies are suffering frostbite from the frigid climate of the current recession. Certainly, questions can be raised as to why these States did not take prudent fiscal actions beforehand in anticipation of a possible downturn in the national economy. However, these questions tend to become academic when asked in the immediate context of those States who economies have suffered worst from the recession.

In my judgment, Congress must act now on some form of legislative remedy that would relieve—at least temporarily—the loan interest payment obligations of those States that have had persistently high unemployment, and, as a result, heavier benefit costs. If I might, I'd like to make a general suggestion or two to address this problem.

One suggestion would be to extend the period for repayment of a loan—without penalty—by a State having a persistently high unemployment rate at or above the national unemployment rate. For example, if the Secretary of Labor determined that a certain State appeared very likely to experience an unemployment rate high enough to merit indefinite extension of the repayment period, such an extension would be granted, but on the condition, perhaps, that the State would take whatever steps were necessary to assure the solvency of its trust fund reserves.

Another suggestion would be to waive the payment of interest by a State having a high rate of unemployment and a large, outstanding loan balance. The waiver of the interest payment could be done either in conjunction with the extension of the loan repayment period or separate from it. Again, the waiver of the interest obligation could be coupled to a condition that a State establish an effective method for assuring minimum solvency to its trust fund reserves.

On the question of assuring solvency to the States' and Federal unemployment trust funds, I'd like to close my testimony by suggesting that Congress consider the recommendation by the National Commission on Unemployment Compensation to establish the Federal taxable wage base as a percentage of the national average wage. What this means is that the Federal taxable wage base, as a certain percentage of the national average wage, would increase automatically whenever wages increased. Since each State's taxable wage base must be at least equal the Federal taxable wage base, each State's taxable wage base would automatically increase as well.

The National Commission specified that the Federal taxable wage base should equal 50 percent of the national average wage in 1983—a base of $8,000—and should gradually increase in 2-year increments until the taxable wage base equalled 65 percent of the national average wage in 1989—a base of $16,000.

The National Commission arrived at this recommendation after much public testimony and spirited debate. The commission's conclusion was that so many States had become or were becoming insolvent because of a steady decline in the taxable wage base ration—that is, these States had failed to increase their taxable wage base relative to rises in total wages.

In its final report, the National Commission pointed out that the declining ratio of taxable to total wages had led to a shortage of funds in many States, making it difficult for these States to cover their unemployment benefit costs. As the commission noted, because unemployment benefits are wage-related, rises in wage levels mean increases infund liabilities. If the taxable wage base is not adjusted periodically, increases fail to keep pace with increases in liabilities. This is especially true in a prolonged recessionary period when high unemployment puts pressure on States' trust fund reserves. This is precisely the situation in which so many States find themselves today.

Mr. Chairman, and distinguished members of this committee, I appreciate your attention to the concerns I have suggested in this testimony. It is my hope that we can work toward fashioning a legislative remedy that addresses the most urgent unemployment compensation problems facing us today.

Thank you.

Mr. STARK [presiding]. Thank you very much, Mary Rose. And our next witness is the gentleman from Ohio, Dennis Eckart.

STATEMENT OF HON. DENNIS E. ECKART, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. ECKART. Mr. Chairman, thank you.

If it pleases the committee, I would just as soon insert my remarks in the record.

Mr. STARK. Without objection, they will appear in the record in their entirety and you may proceed in any manner you choose.

Mr. ECKART. I thank the chairman greatly.

Mr. Chairman and members of the subcommittee, Ohio's economy is not suffering. Ohio's economy is not failing. Ohio's economy is in cardiac arrest, and that is felt most grievously and seriously in the actions in our State capital commenced just this past week.

Between now and the end of June, our State budget is in deficit over $500 million; $500 million, Mr. Chairman, to be made up in the next 4 months, to deal with a constitutional requirement that our State's budget be balanced. This, Mr. Chairman, after the State has already slashed programs, has already cut funding for education, and has already passed two tax increases to cope with our serious economic circumstances.

Now the State faces additional increases in taxes and additional cuts in services. To provide benefits for the 700,000 of Congresswoman Oakar's and my colleagues and friends that are out of work. Mr. Chairman, Ohio in the next 6 months will be running up an interest rate payment to the Federal Government alone of over $200,000 a day.

In the next 6 weeks, 108,000 Ohioans will lose their unemployment compensation benefits. This is in addition to the 100,000 Ohioans that lost their benefits last month. Mr. Chairman, we are hard strapped right now. Our State has little else to turn to. So why should the unemployed of Ohio and the citizens of Ohio find themselves victimized by the loanshark tactics of the Federal Government in this time of our severe economic crisis?

I would also like to submit for the record, Mr. Chairman, a letter that our Governor, Richard Celeste, asked me to deliver to the committee today. In it the Governor reports the very sincere efforts made by previous sessions of the State legislature and by the preceding administration to cope with the seriousness of this problem. But despite the State's best efforts, they are ill-equipped to deal with the wonderful gift that Congress bequeathed to them.

[The letter referred to follows:]

OFFICE OF THE GOVERNOR,
Columbus, Ohio, February 7, 1983.

Hon. HAROLD FORD,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN FORD: I want to thank you and the Committee for providing me with this opportunity to share with you the magnitude of the unemployment crisis facing Ohio.

I also want to thank Congressman Eckart for his efforts in supporting legislation to waive the interest requirements mandated in the Omnibus Reconciliation Act of 1981 and for providing my comments to you for the Committee record.

It is no coincidence that Ohio, with 14.9 percent unemployment, is struggling to erase a projected deficit of $528 million for this biennium ending June 30. As unemployment has risen, we have faced major decreases in revenue and major increases in expenditures. And although some may see economic recovery on the horizon, Ohio's unemployment rose by four tenths of one percent in December. We quite frankly have yet to see Ohio bottom out.

I want to call your attention to some facts concerning the depleted Ohio Unemployment Compensation Trust Fund and to seek your assistance with this problem.

Ohio is requesting that the interest on the money borrowed from the Federal Government, since April 1, 1982, to pay weekly unemployment benefits be waived.

As of February 3, 1983, Ohio's Unemployment Trust Fund owes the Federal Government $1,827,683,730.87.

Of this staggering total, $835,004,730.87 is the interest-bearing part of the loan. The balance, $992,679,000.00 is the non-interest part of the loan.

Until April 1, 1982, the Federal Government allowed unemployment trust funds to borrow money without interest. Since then, the Federal Government has been charging 10 percent interest on money borrowed to pay unemployment benefits. In Ohio, this interest comes to $228,768.43 daily, or more than $1 million a week.

Ohio's indebtedness is the result of three major factors: long-term extremely high unemployment statewide; annual increases in weekly benefit amounts paid to eligible unemployed workers; and the Ohio General Assembly's reluctance, until the early 70s, to increase employer taxes to adequately fund increased benefit payments through the trust fund.

Ohio is working to bring the unemployment compensation system under control. At the same time, my new Administration is working to put Ohioans back to work.

In December 1982, the Ohio Legislature passed Amended Substitute House Bill 1055 as a start. This bill was adopted with a bi-partisan support and was a short one year attempt to address Ohio's deficit position. The bill provides for a bi-partisan Commission with equal labor-management representation to work on a long range solution to Ohio's problem. The Commission is to report back to the General Assembly no later than September 15, 1983.

Now, however, the both Federal and State action is necessary in order to address the problems created by a recession over which states have little or no control. Therefore, I would strongly urge you to support the legislation submitted by Congressman Perkins and co-sponsored by Congressman Eckart which would retroactively waive the interest payments on loans from the Unemployment Compensation Trust Fund.

This relief from the Federal Government is critical in allowing states to get back on the road to recovery without placing an undue burden on the backs of those who are unemployed through no fault of their own.

Sincerely,

RICHARD F. CELESTE,
Governor.

Mr. Chairman and members of the committee, we cannot tolerate the largesse of interest. We wish that we could, but the people of Ohio should not be made to pay for the mistakes of the Federal Government's failed economic policy.

We wish the economic recovery would come and come soon. But for our State, its citizens, we need this help. Extension of benefits, a substate trigger, and, at least, delaying the interest payments would all be items of great help and assistance to our State. But at the rate of $1 million a week, Mr. Chairman, Ohio is rapidly going broke at the expense of the Federal Government.

I thank the chairman and the committee for their tolerance.

[The prepared statement follows:]

STATEMENT OF HON. DENNIS E. ECKART, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, as you are well aware, Congress in 1981 Omnibus Budget Reconciliation Act enacted a provision requiring states to pay 10 percent interest on funds borrowed from the Federal Unemployment Trust Account after April 1, 1982.

At that time in October of 1981, the nation's unemployment rate was 8 percent. Obviously, Congress was assuming a rosier economic picture down the road. We were looking through rose colored glasses with an apparent majority believing it would prove to be sound policy to save the federal government money while giving the states an incentive to pay their fair share of unemployment compensation and ensure the solvency of their trust funds.

Unfortunately, things haven't worked out quite the way a majority in Congress figured. For example, no one figured on the depth and harshness of this recession and its toll on the lives of people who have lost their jobs—too many of them for the first time in their working lives.

A high rate of joblessness in Ohio has placed heavy demands on the state's unemployment compensation funds. The recession has also drained away other state revenues for essential services. Taxes have already been incr[illegible] Services have been reduced. And just recently Governor Richard Celeste was [illegible] propose another package of tax increases and spending cuts to overcom[illegible] [illegible]d $500 million budget deficit.

Requiring Ohio to bear the burden of paying 10 perc[illegible] int[illegible] its borrowing from the Federal Unemployment Trust Account only [illegible]bs [illegible] into already festering wounds. This burden only adds to what is alread[illegible] [illegible]hoice for a state that has lost business, industry and jobs. Raising the [illegible]mployers threatens to drive another nail in our coffin. The higher t[illegible] [illegible] employers the less attractive the state's business climate will be [illegible] the [illegible]

This interest burden should be relaxed on hard [illegible]sed states such as Ohio. The interest payments should be waived at least throu[illegible] 1985 or 1986 and forgiven in a retroactive manner.

Ohio already owes the federal government $992,679,000 in non-interest bearing loans and another $835,004,730 in interest bearing loans. The interest charges alone are running at a staggering sum of $228,768 a day and threatening to go higher. As of now the state's accumulated interest debt amounts to about $23,559,385. The state anticipates the debt will soar to at least $73,914,311 by Oct. 1. And barring some sudden overnight economic miracle the state will have to borrow another $100 million to meet its obligations to the unemployed through April.

There are some signs of economic recovery. But Ohio's problems will loom large as the nation's economy recovers. Traditionally, the state lags behind the nation in times of economic recovery.

There are more than 700,000 Ohioans out of work. There are about 108,000 who are collecting extended unemployment compensation. That extension ends March 31. Obviously, another extension is certain to be in order. We cannot abandon these people.

To further add emphasis to the crisis in Ohio consider the following receipts into the state's unemployment compensation fund and what the demands were. In the last quarter employers contributed about $40 million to the state. The demand on the state's fund was averaging that amount of money per week, not per quarter. And just recently in one week the state paid out $58 million in unemployment compensation—$18 million of which was federal supplemental assistance because of the extension of benefits.

Even though there are some symptoms of economic recovery Ohio is likely to need further advances from the Federal Unemployment Trust Account. As I said previously our wounds are deep and we don't need any more salt rubbed in them by continuing to face a soaring debt imposed by interest payments. Continuing this practice puts the federal government into the position of playing the role of a loan shark during economic difficulties. That is a role that is unfair and unjustified. Congress erred in 1981. It's time to correct that mistake.

Mr. STARK. Thank you.

Mr. Pease.

Mr. PEASE. Mr. Chairman, I have no questions. I would just like to commend all three of my colleagues, particularly Ms. Oakar and Mr. Eckart, for outlining the serious problems facing the State of Ohio. Mr. Oberstar knows that the steel mills in Ohio are not ordering iron ore and that certainly contributes to the 80-percent unemployment rate among steelworkers and ironworkers in Minnesota. So I appreciate your testimony.

Mr. STARK. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman.

I too want to thank all of my colleagues for their very fine testimony. I have a great interest in the sub state triggers that the gentleman has mentioned also. I do have serious concerns with crossing the State lines. I would say that, having had the experience of dealing with another law, the National Health Resource Development Act, in which we had to create HSA's based on SMSA's and the administration of that became very difficult over a period of time.

But I thank the gentleman for bringing this item before us. As a new member of the subcommittee, I had not explored it, but I think it is something that is worthy of this committee's attention.

I understand the problems of the States such as Ohio, but I also have to look at other States that are not in that situation. And we have had people come before us with various suggestions, and the previous witness from the Labor Department, mentioning that all kinds of things were under consideration, everything from leaving it as it is to possible delay in interest to forgiveness.

A State such as mine, that is a smaller State and has had this similar problem, our Governor Dick Riley has had to propose a $100 million program again this year to compensate for the same type of thing.

The problem I have with it, and I would ask this in a question, is how can we justify for those other States who have adjusted their, not just their taxable wage base increase but who do not have the outlays of the States that seem to be in such serious problems? As I look through the list of outlays, I find that the four that are in the most trouble are at the highest level of benefit payments, and I notice that in citing the Commission you talked about increasing the taxable wage base.

What are your thoughts, Ms. Oakar, if you would, on a combination, if we deal with this, of wage base and outlays if we are going to deal with it nationwide?

Ms. OAKAR. Well, of course, in my statement I did say that the Secretary of Labor could take a look at—and I expand on this in my statement—the kinds of programs that each State had and that there would be some form of uniform standard, perhaps before he made the recommendation to, let us say, forgive the debt or to forgive the interest.

I think if you take a look, however, at the States that have had acute unemployment—and remember, my State prior to 1980 was one of the conservative States in terms of borrowing from the Federal Government—I think Ohio is really a very good State to take a look at in terms of its changing economy.

The reason that these States had to expand their benefits and so on was because they had so many people unemployed who still could not find a job and who were looking for a job. There are other problems, as you know, when people are frustrated in terms of not having employment. So in other words, the unemployment problem was continuing and these States had to extend their benefits.

You know, I serve on the Housing Subcommittee, just to give you an example, Mr. Campbell, and you would be amazed at the number of middle class people who paid on their mortgage faithfully for 15, 20 years, and had maybe 10 more years to go and have lost their homes or are in the position of losing their homes.

Now, if these people had nothing and they had made the good faith effort, which they have to do under the law, to collect unemployment compensation, maybe we could do a better job of using our employment services to help these people find jobs. I think you raised that issue earlier. There are some really good recommendations our Commission reports for doing that.

But these people have made the good faith effort in trying to find those jobs. They would like to stay in whatever States those jobs are. And as a result, those States have an obligation to meet the needs of their constituents.

Mr. **Campbell**. Ms. Oakar, let me be very, very clear about something. I do not think that there is a question before this committee as to whether we are going to extend the time period for the benefits. We are going to do that. I would say that is almost a foregone conclusion.

The question is what else, if anything else, we are going to deal with, and I think that that is extremely important to recognize. The point I was trying to make was, how can we tell other States that also have to get money from the general fund for programs that impact them that we can forgive a portion of that, which impacts the budget deficit and everything else, and that they are going to have to make it up because they did not find themselves in this situation, either because they kept their wage base high enough to meet their benefit payments or not?

How can we realistically say that we should forgive those that did not do that?

Ms. **Oakar**. Providing everything is equal, let me just say this. It could happen to your State also.

Mr. **Campbell**. Oh, no question. My State is projecting down the road, but they are taking the situation now in making their judgments.

Ms. **Oakar**. My testimony does give and I can give you some arguments for indexing the Federal taxable wage base also, which I think is another possible solution.

Mr. Oberstar. If the gentleman would yield, I would like to point out a very significant fact. If you look at the table of those States who have the greatest indebtedness, Illinois, over $2 billion, Michigan, nearly $2.2 billion, Ohio, $1.6 billion, Pennsylvania, $2.1 billion.

These are the most heavily industrialized States in the country. These are the States that have been hit by what economists call both short-term and long-term structural unemployment. The penetration of imports has devastated those States in steel, auto and heavy industrial machinery. The embargoes successively by the Carter administration and the Reagan administration on grain, butter and machinery for foreign policy purposes have had serious effect on these States.

This is a different kind of recession. It is a heavy industrial recession, and it has impacted those states in a far different way.

Mr. Campbell. If the gentleman would allow me, I am in sympathy. My district is the largest textile producing district in the country. I have one of my counties with 27.5 unemployment. I am not from an area with 4- or 5-percent unemployment and sitting here hard, cold and callous.

Mr. Oberstar. I am delighted the gentleman was assigned to service on this subcommittee.

Mr. Campbell. The gentleman will note that I also have an interest in the steel industry. But the point that I am trying to deal with is the equity of the whole situation and how we reach it.

I see a possibility, maybe not dealing with the unemployment extension and I will not belabor it, Mr. Chairman, because I know we are behind but I see a possibility more in our job retraining, even exploring not in an unemployment extension or any extension of benefits, but some sort of a stipend for job retraining for people to move into in those industries particularly that never will get back up to the level of employment that we had before because they are in a transition to mechanize or to modernize.

I think we need to explore that as time goes along, and I certainly hope we should work together on that.

Chairman Ford. Mr. Eckart, I want to apologize for being out when you testified. I had an appointment in the office.

You know, we are now addressing the problem of the FSC extension, which we all know will expire as of March 31 of this year. Mr. Oberstar, the legislation you have introduced calls for additional weeks of Federal supplemental compensation to the tune of 10 weeks. The administration has testified this morning earlier and said that we must have a cutoff point, at some point we must cut it off.

I think right now those who are unemployed, the total number of weeks would come to 55 weeks. Your legislation would extend the 55 and carry it to 65. The administration says, well, we must have a cutoff period, and even extending the Federal supplemental compensation program itself does not extend the unemployment benefits for those who have already or will exhaust their benefits on or before the March 31, 1983 date.

Your proposal would extend it 10 weeks. They have talked about a voucher plan that they explained to the committee and which we will take into consideration in the markup session in this bill. We questioned the administration earlier about the voucher plan excluding the 1 million recipients who will have exhausted the benefits by March 31, how will they be treated or will they be taken into consideration in the administration's plan, and would the administration support this committee including the million people who would have exhausted those benefits. They have already indicated that that is under consideration at this point.

Mr. Oberstar, with your bill being introduced with the 10 additional weeks, cashing out for 10 additional weeks of unemployment benefits, would you consider the position of the voucher plan? You might not be that familiar with it. We are not that familiar with it at this time, but you know, it is something that we had talked about earlier in this committee with the staff, about trying to put together a program that would in fact include those that have already exhausted their benefits and providing some additional weeks, maybe not a cashout for the 10 additional weeks but a period of time for them to have the voucher to be placed on the job for some type of gainful employment or training or whatever it might be.

Mr. **Oberstar**. I have looked over the Administration's proposal and the testimony presented this morning. In my opinion this is an abdication of the responsibility of the Federal Government. This is not going to create any jobs.

The testimony presented by Mr. Cogan says that instead of a cash assistance check the worker will be eligible for a voucher. The worker's new employer can apply this voucher against unemployment insurance and against Federal income taxes. The key is "new employer."

Before I left to come back here for this testimony, a person back in my district said, "Jim, when you get back to Washington would you go and tell that President that I am sick and tired of being trained for a job that does not exist." You have got to have the jobs first. The voucher is fine if you have all kinds of jobs to go around. If there are that many jobs you do not need the voucher, very honestly.

Chairman **Ford**. Well, the way I understood the Administration to explain it, the voucher would create jobs.

Mr. **Oberstar**. Where?

Chairman **Ford**. Wherever. They are saying it would create some 700,000 jobs.

My concern at this point is, in the situation of $120 a week cashout unemployment benefits, the voucher would call for only 50 percent of that and for a period of 32 weeks. And if Joe Doe, unemployed person, walked into your company, he would give you the voucher and you would have a tax credit. It might be that you would not have a tax liability to use the tax credit, and I understand that you could even delay it or carry it over until the next taxable year.

Then that employer can use the voucher for whatever tax liability or tax writeoff, and it is not a job training. But I understand the Administration to talk about job placement.

Mr. **Oberstar**. It may work: (1) if you structure it so that you guarantee that nobody is going to lose an unemployment check while the program is in effect; and (2) if you give the unemployed worker the opportunity that if he does find a job, he can walk into that firm and say you will get a benefit from the Federal Government if you hire me.

In Northeastern Minnesota unemployment has increased from 14,000 to 30,000 workers, a 20-percent unemployment rate. The jobs that are left are the lowest paying jobs in the economy. Where are they going to go to find an employer who needs to hire somebody? They have gone to the coal fields in Wyoming, they have come back. They went to the oil fields in Texas, they have come back.

Chairman **Ford**. We certainly want to see an innovative program, and you talked about the voucher program and you brought out some points that we are going to look at.

I would like to see more of the program that the administration has talked about because we are all concerned about this. Rather than extending unemployment benefits, we want some jobs. We can see that we have to place people in jobs, and I think that commitment is not only yours and this committee's, but everybody else who is involved.

Mr. **Oberstar**. Let me share, if I may, an experience I had years ago. I studied in Belgium at the College of Europe at the time of the formation of the European Common Market when the coal and steel community was in its earliest formative stages.

The governments of Europe formed that coal and steel community, surveyed all of the steel industries in Western Europe and determined which ones would close and which ones would stay open and which coal mines and iron ore mines would close and which would stay open.

When they made that determination, then they provided for separation of those workers who were affected by the closings. They gave them the option of full pay for the rest of their life, or retraining, and while they were retraining for a job the governments found for them, in another area of that country or in another country, they paid their rent, they covered the cost of their living and the cost of transportation and relocation of the total family and their possessions to a new job.

The result was a totally rebuilt coal and steel industry in Western Europe that today, with $50 billion, is the equal of the U.S. steel industry, penetrating our markets.

If you wanted to put together a total package, the voucher concept might have some application. But short of that, my concern is that it is an evasion of the problem.

Mr. **Eckart**. Mr. Chairman, I just want to add three things. I am very concerned about the question of displacement. What happens when a worker with a voucher shows up at a plant; does the employer lay off an existing worker to replace the tax free worker? I think we would have to build in safeguards to protect existing employment opportunities.

Second, in terms of what your committee is facing in deficit reductions, revenue enhancements, call them what you will, what the voucher, in effect, does is spread out or delay the cost into future years. If you make the tax credits refundable it will still be a current outlay, but through a different mechanism. If you let them carry it forward, it will just exacerbate the deficit question in outyears. And the numbers we have seen there, well, there is a lot that could happen in the outyears.

The third issue I would raise, as a member of the Small Business Committee, Mr. Chairman, is this administration and the Congress have been very helpful in carrying out the Paperwork Reduction Act. I would want to view very closely the impact of enhancing the tremendous paperwork burden that small businesses are now encumbered with. The voucher system might prove to be a disincentive, much in the same way that the targeted jobs tax credit really has not been that effective because people spend too much time trying to deal with the paperwork aspect.

I think there are a number of ramifications to it that I know you will take a good look at.

Ms. **Oakar**. Mr. Chairman, could I briefly comment on that?

Chairman **Ford**. Yes, Ms. Oakar.

Ms. **Oakar**. Thank you. I think this administration is voucher happy. You know, they want to voucher medicare benefits for the elderly, they want to voucher the idea of Federal employee health benefits and change over their current health benefit plan and so forth, for which benefits Federal employees pay an awful lot of money and so on.

It is just a way of removing the onus for assisting our people and having full employment in this country. I really agree it is a cop out.

For example, in our National Commission report we have recommended that the employment service program that reaches out to help people to get a job and is a component of unemployment compensation be beefed up, but we have seen a decline in staff and so on. They have further removed staff in those areas. We know that in the highest unemployment areas in my own district the office was shut down. Even though we restored some of those services, those offices have not been replaced.

So, the other point, too, is would a new job under this voucher program take into account what that person had earned in the past, what his or her skills were, and all of those years of experience? That is what unemployment compensation is based on. It is based on what your wages were and so on. And you can say all you want, that these lifestyles have to change. I mean the fact of it is that people base how much they are going to be able to afford for a home and what their lifestyle will be on the permanency of their job.

And so I honestly think that this voucher business just adds to the whole mentality of let everything be vouchered and forget about it. Give some more tax breaks to some of these corporations and we will still find that we have more people unemployed as a result.

Chairman **Ford**. Mrs. Kennelly, I am sorry that the Chair did not hear you when you tried to get the Chair's attention a minute ago, but the Chair recognizes you now.

Mrs. **Kennelly**. Thank you very much, Mr. Chairman. It just so happens that the Congressmen testifying were right on the track of my question, and it was vouchers. May I add to Congressman Oakar's litany about vouchers?

It reminds me very much of our housing voucher where you take the section 8, take that away from the person and say here is a voucher; now you go find somewhere to live, but there is no apartment to live in because we are not building any low-income housing anymore.

So may I add that to what I think this new voucher looks like?

Ms. OAKAR. I forgot housing, which is key. Thank you.

Chairman FORD. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman. Two things. One, I would take exception that the voucher proposal is a cop out. I think it would be only part of an overall program. I should hope that any effort in dealing with unemployment extension or other programs is to try to find a bridge back to employment. And if, in fact, the voucher does get someone off the system of drawing unemployment and moving into an employed capacity, then I think that it would provide that bridge.

I think it is only one tool, and I do not think it should be relied upon exclusively.

Mr. OBERSTAR. In that light, I would agree with the gentleman. With some safeguards built in against substitution.

Mr. CAMPBELL. Absolutely. I would concur, and we ask that question, and the gentleman from Ohio raised the point and it is a good point. There cannot be any displacement through it.

I think that some of the things that I heard would fall into providing a bridge. I think that the FSC benefits, perhaps some additional funding in title III in the Job Training Partnership Act, some funds for relocation, and some requirements that go with those funds for either entry into a job retraining program might be the kind of package we need to try to help this transition.

And I hope that we would not foreclose any portion of that as we all seek to try to find it.

I would also like to go back briefly to the question of the forgiveness of interest and this sort of thing because it concerns me. Those funds that we might forgive in one area might be used in another area for the bridges that we are talking about. And we all represent certain areas that are concerned with it.

I think that in the wage base, I think that is important. But I also think that the percentage that is paid in on the salaries is important. And I think we need to look at that in those States that are having problems now. And I should hope that you would agree that we should explore that if we take this up.

Ms. OAKAR. I absolutely agree with you, and I think if you take a look at the new legislation that has been passed by those States that have heavy unemployment, you are going to find that they have really made an attempt. Michigan, for example, if I can speak objectively, has really bitten the bullet in terms of rectifying some of the past criticism and so on.

Mr. CAMPBELL. Yes, they did.

Ms. OAKAR. But all of those things considered, if a State, you know, through no fault of its own you might say, has shown the good faith effort that you are talking about, there ought to be a way, whether it is my State or somebody else's State, that we at least forgive the interest on the loan.

Remember, interest on loans is a new concept. We just put that into law in the last Congress. And what I am saying is we had better look at what we did in charging that astronomical amount of interest, because it is devastating.

Mr. **Campbell**. Let me not mislead the lady. I do not favor the forgiveness of the interest. I think there are ways to work it, but I think that would be something that would be unfair to those areas of the country that have made their adjustments. And I think that there will have to be adjustments in seeking some solution to this overall problem.

Mr. **Eckart**. We are not here asking for a free ride. We intend to pay our fair share. But most importantly, we hope that the Federal Government will understand the peculiarities of our situation, the tremendous deficits, the lagging, high unemployment in excess of 14 percent and accommodate us until we are healthy enough to make a good faith payment. As the Governor's letter reflects, it is our only hope.

Mr. **Campbell**. So in essence, what you are saying is if we do move this, we should do it in conjunction with a restructuring of your own unemployment insurance program within your state as a part of it.

Mr. **Eckart**. Well, they are trying to——

Mr. **Campbell**. There be some requirement that there be some effort made to come back into balance so that there would be assurance of those good faith payments in the future?

Mr. **Eckart**. They are trying to find $500 million in the next 4 months, to make that work. And it would be my hope that they can do that. Until then, I'm asking the Federal Government to also take into account that some States are worse off than others.

Mr. **Campbell**. Thank you, Mr. Chairman.

Chairman **Ford**. Any further questions? If not, I would like to thank each and every one of our colleagues for testifying before the committee today. Thank you very much for coming. Very good testimony.

The committee will now call on the Mon Valley Unemployed Committee, Mr. Bill McHenry, a member of the United Steelworkers Local 1557; Mr. Rob Toy, a member of the United Steelworkers Local 1256; and Dave Carter, a member of the United Transportation Workers Local 1628.

The Chair would like to welcome all three of you here before the committee today, and I understand that you left early this morning and drove practically since 4 or 5 o'clock this morning to get here to be before the committee, and also that you are not being compensated for coming down today. As a matter of fact, you raised money from the community and got offerings to be here to testify before the committee today; is that correct?

We want to thank you very much for coming, and we know that it was somewhat of a hardship for you to come. And I just wanted to point out for the record that you three gentlemen are not being compensated for testifying and being before the committee today.

STATEMENT OF ROB TOY, MEMBER, MON VALLEY UNEMPLOYED COMMITTEE; MEMBER, UNITED STEELWORKERS LOCAL 1256

Mr. Toy. Thank you. Yes, sir, Mr. Chairman, like many unemployed people, we do not have resources to fly in and out.

Chairman Ford. Before you do that, I would like you to introduce yourselves for the record so that the court reporter will know your names.

Mr. Toy. Yes, sir, my name is Rob Toy, I am a member of Duquesne Local 1256, United Steelworkers. To my right is Bill McHenry, member of United Steelworkers Local 1557; to my left is Dave Carter, member of UTU Local 1628.

Chairman Ford. Before you start your testimony, what is the Mon Valley Unemployed Committee, may I ask?

Mr. Toy. The Mon Valley Unemployed Committee grew out of a number of layoff committees from various steel locals in the Monongahela Valley just south of Pittsburgh.

Chairman Ford. All three of you are unemployed?

Mr. Toy. We are all unemployed. In fact, our fourth member who is here and not testifying, Mr. Nick Burton, is also unemployed.

Chairman Ford. If you would like for him to join you at the witness stand, the Chair would have no problem with that at all.

Mr. Burton. I will not be talking, though.

Chairman Ford. That is all right. Just pull a chair up to the committee table, if you would like.

The Chair will recognize you, Mr. Toy, at this time for your testimony.

Mr. Toy. Thank you, Mr. Chairman, and honorable committee members, and respected guests. I do have a prepared statement but I would like to make a comment prior to that statement.

I certainly wish that dear Mr. Cogan from the administration would have had the courage to stay around and listen to unemployed people talk about the kind of nonsense and the kind of bullshit that is contained in his proposals. I think that the kind of attitudes that he represented here today typify and, in fact, really exemplify the kind of attitude towards the unemployed in this country that makes us really leery of believing in various politicians, sometimes on both sides of the aisle.

Also, I would like to say, bear in mind that we are not experts, we are not technicians, we are not bill writers. What we present today is from the perspective of people who have been, by and large, long term unemployed, who are seeking answers from the political process and who wish to encourage those who represent us, those who are paid to write the bills can, in fact, understand what we need and can introduce the kind of legislation that is needed.

As I said, I am a steelworker, a member of U.S. Steel's Duquesne Local 1256, and the former chairman of that local's layoff committee. I have been laid off since April 3, 1982, and it is for that reason that I am before you today representing the Mon Valley Unemployed Committee.

For almost 1 year, the committee has been fighting for the needs of the unemployed with the demands of Jobs, Extended Unemployment Benefits and Save Our Homes. I myself have a very modest home, an old car, and the typical bills that anyone builds up over the years. In short, I have a decent but not extravagant existence, yet for all the years that I have worked to get the few things that I have, it is all threatened.

It is being threatened by the greed and the mismanagement of the company that I work for, and by a government that at best, seems bewildered by the depths of the depression that much of this country faces. At worst, by an administration whose callous indifference for America's unemployed spends 17 percent more to run the White House this coming fiscal year, takes billions for external defense and gives massive cuts in social spending that forms the internal defense of this country.

A country that simply writes off its people, that simply writes off a large section of its people cannot and will not survive. A country that tolerates the greed and indifference of corporate leaders such as David Roderick, chairman of the Board of United States Steel, who publicly stated that U.S. Steel was in business to make money, not steel, to dictate whether I can have a decent and secure job is a country that will not retain the peaceful support of myself or of the people that our committee represents.

For our committee, the proposals before this body today and in the next several weeks barely scratch the surface of the problem. To be sure, a 6-month extension of the current program will help a few unemployed, and we appreciate that. It might even be enough to pay the taxes that we must now pay on our total unemployment compensation. And there will be newly unemployed people to collect those benefits.

While the January 1983 national unemployment compensation figures showed a slight drop, the December 1982 figures for Pennsylvania show a large increase to 13.6 percent. And the December 1982 four-county Pittsburgh area figures show another large monthly increase to 15.5 percent. For us, as in numerous other States across this country, this is a depression.

Need I mention that those official figures do not count the thousands, the millions of unemployed who have lost all hope of finding work and those who have lost all and are now living in tents and cars that are not counted.

It is clear that the entire unemployment compensation system in this country is inequitable and in shambles. If a high-cost-of-living State such as New York has a meager $125 a week maximum while neighboring Pennsylvania has a $205 a week maximum, and a State in utter financial and employment chaos and crisis such as Michigan can be cut off from Federal UC extensions, very little else needs to be said.

The answer is not just a 6-month extension, not even a 6-year extension. The answer lies in creating a system that funds people at decent living standards until this Government develops the jobs and the job skills that every American is entitled to, instead of the case where in most States such as Pennsylvania State laws discourage retraining.

While our President points to low wage, nonunion, poor health and safety, high tech jobs, we point to the estimated 20 to 30 percent of the adult U.S. population that cannot read or write beyond the fifth grade level. While our President points to the $25,000 per year average that is spent on unemployment compensation, we point to the estimated $12,000 to $13,000 per year average that a combined retraining and living expense program would cost.

Finally, while our President points to the UAW, United Auto Workers, and the automakers retraining program as a model of private enterprise solving the problem, we point to Mr. Donald Ephlin of the UAW who states that there is a need for living expenses and job creation that is not in the program, and is quoted as saying, "The private sector can only supplement Government programs."

To close, I say this. The ball is in your court. It is in the court of this Congress; for the administration, as I believe exemplified by Mr. Cogan, has abdicated its responsibility to the unemployed and, in fact, to the working people of this country.

We invite your questions today, but we will return on March 15 to see whether our Congress, our representatives, the people we send to this Capitol, have abandoned us as well. Thank you, Mr. Chairman.

Chairman **Ford**. Thank you, Mr. Toy. The Chair will recognize Mr. McHenry at this time.

STATEMENT OF WILLIAM McHENRY, MEMBER, MON VALLEY UNEMPLOYED COMMITTEE; MEMBER, UNITED STEELWORKERS LOCAL 1557

Mr. **McHenry**. Mr. Chairman, committee members, ladies and gentlemen, my name is William McHenry. I am 33 years old, married, with two daughters. Upon graduating from high school I have established a very good working career, including serving as a police officer here in Washington, D.C. I have for the past 9 years worked for United States Steel at its Clairton Works outside of Pittsburgh.

Naturally, wanting to be part of the American dream, I purchased a home 7 years ago. It is a 70-year-old frame house with constant repair needs. My purchase price was $14,000, and I had plans of putting a greater investment into it. I do not use credit cards and have a very small overhead except for your basic food, clothing, shelter, and health care needs for myself and my family. And yet, with the loss of unemployment compensation benefits facing me in 6 weeks, I do not think I can survive.

As of this date, I have been out of work for over 13 months. Since being laid off, I have been deeply involved with the Mon Valley Unemployed Committee, directly dealing with the problems now overwhelming us. I, myself, have been under direct pressure of dealing with the prospect of no checks of any type coming in and no prospects of any employment in the near future.

I find it very difficult to even cope now. I also face the horrible problem of not having any medical or dental benefits. There is nothing out there as far as followup medical care or emergency dental care are concerned. I feel that unless the Government steps in and says there must be provisions made for these people, there will be total chaos in the streets of America today.

I say to you Members of the House, where do you take your children when they are sick? This is not to say what will happen when more and more people totally exhaust all benefits and start losing their homes, which many have already experienced, and I myself will probably begin to face after March 31 when I lose the few weeks of extended benefits I have left.

I must also focus on the utility problem more closely to where I live. The utility companies have already put into effect a security deposit program. It states simply, No. 1, if you begin to become delinquent in your payments, they charge you this deposit. This is to encourage you to pay all of your bill at once. And No. 2, if you have your service terminated, you have to pay this deposit to have your service turned back on.

Again, I say to you Members of the House, if I cannot afford to pay my monthly bill, then how in the hell am I supposed to pay a security deposit to keep my family warm?

The Mon Valley Unemployed Committee has taken a very hard stand behind the mortgage, utility, and medical issues, and most importantly, the unemployment compensation and jobs issues. We have been out struggling and meeting with different agencies and asking for help dealing with such problems.

I am here today to demand not only of yourself, Mr. Chairman, but also of your committee members who are being paid by our tax dollars out of our unemployment compensation checks to immediately act on these problems today and not sit and ponder it.

What I am trying to convey is that you are hearing from me today, but on March 15 you will hear from thousands of others like myself, personally, in your offices. And by then you had better have something concrete to give us such as a livable income and a way to achieve a decent future.

Thank you, Mr. Chairman.

Chairman Ford. Thank you, Mr. McHenry.

The Chair will now call on Mr. Dave Carter.

STATEMENT OF DAVID CARTER, MEMBER, MON VALLEY UNEMPLOYED COMMITTEE; MEMBER, UNITED TRANSPORTATION WORKERS LOCAL 1628

Mr. Carter. Mr. Chairman, members of the House Ways and Means Subcommittee, my name is David Carter. I am laid off from the Union Railroad Co., which is a class 1 terminal switching railroad primarily serving United States Steel Corp. mills. I have worked as a trainman since May 1969.

I am within the top 40 percent of our work force and have been off since last March, as have men who were hired in 1951. This layoff period exceeds my combined total layoff time since July 1955, when I was 15 years old. I am a Vietnam era veteran and have spent 7 years as a fireman EMT, more commonly known as a fireman paramedic.

I am a concerned person as to the civic conditions, neighborhood, and family living conditions and safety. I would like to bring to your attention the plight of unemployed workers of America and, in particular, the unemployed railroad workers whose unemployment compensation is regulated by the Federal Government through the Railway Labor Act.

I feel that Government is supposed to be a government for the people, by the people, and of the people. Most of the people are workers. Government's responsibility should be to take care of its workers from the youngest to the oldest. Government has failed its workers, its largest group of voters. Government has used our tax dollars to put us out of work and on the streets, destroyed many of our homes and families, the basis of our society, and caused increased suicides.

Our Government has given us a lack of confidence in its leadership and has turned us into beggars, forced to look for handouts, to steal, and to commit other crimes of unrest. In my home State of Pennsylvania, State unemployment compensation is currently $205 per week for a single person and $213 a week for a family. Myself and other unemployed railroad workers receive a maximum of $125 per week. This amounts to approximately $300 per month difference.

Current legislation regarding unemployment compensation does not pertain to us. We have been denied the trade readjustment allowance [TRA] twice. And we do not receive sub pay. Our expenses are the same or greater than other blue collar workers. For example, we are required to have very reliable transportation to get to the various starting points, usually in remote locations. This reliable transportation is usually a vehicle of less than 2 years old. This vehicle must be kept and maintained while we are laid off. Its value prevents us from qualifying for food stamps, medical assistance, and other State and Federal benefits.

Our unemployment compensation prevents us from paying the $586 quarterly to continue our medical coverage. We are not allowed to even deduct the cost of the vehicle from our State or Federal income tax, though it is essentially our mobile locker.

We are the workers who receive the least compensation, laid off through no fault of our own. It seems that our Government has a great dislike of us. It is the railroad workers who move most of the freight about this Nation despite weather and other obstacles.

Our union must negotiate 9 months before the Railway Labor Act permits it to strike, yet Government voted an end to the last strike in 4 days. But it could not raise the unemployment compensation in over 6 years while double digit inflation was spiraling higher and higher.

Railroads are vital to this Nation in peacetime and in wartime, and so are its workers. We urge your support on House bill 23174 and House bill 194, which pertain to the improvement of unemployment compensation for railroad workers. We also ask you to do all in your power to bring government back to us, the workers of America. Thank you.

Chairman FORD. Thank you.

Mr. Toy and Mr. McHenry, the two of you were employed in the steel industry, is that correct?

Mr. TOY. Yes, sir.

Chairman FORD. And both have been unemployed for some 9 or 10 months, is that correct?

Mr. MCHENRY. Thirteen, to be exact.

Chairman FORD. And the other about 9 months?

Mr. TOY. Yes.

Chairman FORD. Have you exhausted or will you exhaust all your unemployment benefits or Federal supplemental benefits on or before the March 31 date?

Mr. MCHENRY. Mr. Chairman, as of March 31 I will have exactly 2 weeks left of the 6-week extension.

Chairman FORD. So in other words, the 6-month extension, the Federal supplemental program they were talking about today will not really do you any good or others who are in similar situations like yours?

Mr. MCHENRY. Quite a few in my situation.

Chairman FORD. What are the chances that you will be called back to work in your area?

Mr. MCHENRY. At this point I would say slim to none.

Chairman FORD. The chances are very slim?

Mr. MCHENRY. Very slim.

Mr. TOY. Let me make one thing clear about steelworkers. I mean many people, we face a real double problem because when you are a steelworker, when you go to look for a job as we are mandated to do, they say, well, you are a steelworker so you are going to be called back, so we are not going to spend the money to hire you and train you and do whatever we need to do.

On the other hand, in a survey which we conducted amongst our food banks and amongst the committee members, we found that 41 percent of those people believed they would not be called back.

It is a myth that massive numbers of steelworkers still cling to the idea that they are going to go back to work. There is a large percentage that do believe it, but there are many, many people who understand what is happening in today's world, who understand what is happening to the economy, and are asking for help.

And what you are hearing today is I believe the righteous anger of people who are looking for some help. We are not even talking about handouts. We are talking about trying to develop a system where people can get a decent living and a job and be able to roll that into one package. We do not believe that is an unreasonable request to ask of our Government, that our Government helps us in the effort to obtain jobs.

We do not have the exact answers as to exactly what that means. You know, we do not have it all written down, but we do work with various people, various agencies. There are several addendums that are on the testimony about the committee.

I would also like to leave these copies, of which we only have one, with this committee, Mr. Chairman. This is a survey that has been done by another nonprofit organization called Action Housing. It is a survey which shows the depth and the degree of the mortgage crisis in our area. We worked jointly with them over about a 6-month period to help develop the study, to give the hard facts, the concrete facts as to what is going on.

The second one is another thing dealing with mortgage foreclosure. It is a brochure developed by the Neighborhood Legal Services, which helps people to understand what their mortgage is, to know if they have a veteran's mortgage, an FHA mortgage, a conventional mortgage, and how they can use the various programs before they get into trouble.

These are some of the kinds of things that we try to work with people on before the crisis happens. We do not want to see a crisis, but we see it coming. And unless there is some help, all hell is going to break out.

Chairman FORD. Mr. McHenry or Mr. Toy, would either of you be eligible for any public assistance programs after you have exhausted all of your unemployment compensation benefits? Have you looked into that area of public assistance? Meaning health coverage for your children under medicaid or food stamps or any other public assistance programs.

Mr. MCHENRY. I would like to return to Mr. Campbell's comment about being transitional. We fall under that category at that point being transitionally needy, which would mean myself, my family, my children, what have you, would go on public assistsnce for 90 days and again be off for 90 days.

And I ask you, at that point where in the hell do I go from here for 90 days? What do I do to keep my family, to keep my home, to pay my utility bills, to put food on the table at that point?

Chairman FORD. One final question, and I want to raise this with Mr. McHenry. I do not know whether you were here earlier when the administration testified. They talked about the voucher program.

How do you interpret that for those who have exhausted or will exhaust their benefits on or before the 31st date or within 1 week or 2 under the extension of FSC. How would the voucher plan attract your attention as it relates to those who have exhausted the 55 weeks of unemployment compensation benefits, whether it be State unemployment compensation or Federal supplemental benefits?

Mr. MCHENRY. From what I understood of what Mr. Cogan testified, I myself would not fall under that category.

Chairman FORD. I understand that. But the administration has taken into consideration those million unemployed people who have exhausted all of their benefits. What do you think about the voucher program, for the little that you know or have heard about this morning, if it were to provide the coverage for those who have already exhausted their benefits?

Mr. MCHENRY. Let me ask you a question before I continue on. I heard mention of $60. Am I correct?

Chairman FORD. It is 50 percent of the amount of unemployment benefits that the recipient would receive. So if you are receiving $120 weekly on a cash out payment under the program, you would be eligible for a period of 32 weeks for the voucher plan for the employer.

You mentioned earlier that you did not see any real hope in the future to be called back in the area that you have been gainfully employed in before. I am saying now that the voucher plan that the administration has addressed and put before the committee, if it was extended to provide coverage for those who have exhausted those 55 weeks of unemployment benefits, then they would be eligible for a certain amount of weeks for the voucher plan.

How does that strike you is what I am asking?

Mr. MCHENRY. I would like to propose this. As of now, I am collecting a maximum benefit in the State of Pennsylvania of $198.

Chairman Ford. It would be 50 percent of whatever that amount.

Mr. McHenry. Then we are talking maybe $80, $90 at that point. If I am barely meeting my wits' end right now with $198, what am I supposed to do with $90?

Chairman Ford. Well, the voucher plan would work somewhat differently from that. You would have to carry it to the employer who will be retaining you as an employee, and it would be a tax credit provided for that company in which you will be working for the employer.

Mr. Toy. I think that the basic question that we have about such a program is what sort of standard of living are people going to have? That is, does that program—and we do not quite understand, as you yourself mentioned earlier, Mr. Chairman; we do not understand all the details of the program and my immediate question would be does it provide the employer money to hire that person and neglect sort of living wages to support that person while he is either getting retraining or whatever? The problem is we do not see again the combination.

Chairman Ford. The way I understand it, that person would be receiving a check from the employer. He would be receiving his weekly paycheck, and the employer would receive the 50 percent of the unemployment voucher plan as a credit toward his tax liability.

Mr. Toy. And that might very well work if, as one of the previous Congressmen had stated, that there were some jobs around that one could be paid for.

I think one of the first problems that we have to address is what is happening to jobs in this country, why there are so few jobs available. And it goes, I believe, beyond just the question of the depression that we are in. We believe that there are some fundamental changes occurring in this economy and that the voucher system would not really, and does not really, address these questions. It might provide a bandaid for a few people, but the vast majority of people that we see would simply not be eligible.

And my question as to the 1.3 million excluded; I do not believe that that is true. The four people who are here today from our committee, not one of us would meet the requirements, for instance, of the 30 weeks worked in your base year.

Chairman Ford. As chairman of the committee, I am concerned, and I expressed that when I called upon you to testify before the committee today. I know that there are other members of this committee and Members of this Congress who are just as concerned as the chairman of this committee, and we are going to work tirelessly to come up with some legislation that will respond to those needs that you have right now.

And I know that extending the Federal supplemental compensation program certainly would not provide the type of protection that you would need at this point in time, because 1 or 2 weeks after this program is extended, there are many of you at this table now who will have exhausted those benefits and there are millions of others, at least a million people, will have exhausted all of their benefits. And I know that we have an obligation and a responsibility to respond to those programs, and we are going to do so.

But we have to look at other alternatives. The administration has said, and I think there are colleagues of ours in the Congress and many of you would have to feel that at some point that there must be a cutoff period. But at the same time we cannot look toward a cutoff period, we must respond to the problem and try to find workable solutions to those problems. And I think that we can do so. But it will take the able assistance of people like you to tell us who are caught in that situation that you do not want to be in and we know that, and we know that being the Federal Government we must do something to respond, and we are going to do that, though we want to come up with the best solution or solutions to those problems that you are faced with.

Mr. Stark.

Mr. STARK. Do I understand that none of you have in 1982 or recently will have had 30 weeks of work? Is that right?

Mr. TOY. That is correct.

Mr. STARK. So pretty much whatever we do, if we gave somebody 10 years of benefits and left that 30 weeks of work requirement in, none of you would qualify? Is that right?

Mr. TOY. That is correct. I worked for the first quarter of 1982 when they suddenly laid us all off.

Mr. STARK. Could I direct a question here to Mr. McHenry? I hope you will answer it because it will help me understand your situation better. I think too often those of us with steady work, at least 2 years at a time, never dwell very long on running out of work, or out of money.

Mr. McHenry, you have two daughters. How old are they?

Mr. MCHENRY. I have one 7 and one 11.

Mr. STARK. Both in school in your neighborhood?

Mr. MCHENRY. Correct.

Mr. STARK. And your wife is at home? Is she a homemaker? Is she employed?

Mr. MCHENRY. Housewife.

Mr. STARK. Could she, or has she worked in the past? Does she have any skills?

Mr. MCHENRY. She has had prior experience typing, insurance work, along those lines.

Mr. STARK. Has she been looking for work?

Mr. MCHENRY. Very diligently.

Mr. STARK. Has she had any opportunities to become a sales clerk in a store?

Mr. MCHENRY. Very little.

Mr. STARK. She has looked and found nothing?

Mr. MCHENRY. She has looked quite extensively.

Mr. STARK. Could I ask, in the mill that you worked in, what did you do? What was your day-to-day work when you were last there?

Mr. MCHENRY. The job I last had is what you are referring to? I was directly involved in the process of charging coal into an oven and making coke.

Mr. STARK. Part of a coking team?

Mr. MCHENRY. Yes, a coking operation.

Mr. STARK. If your plant does not reopen there aren't other mills in the neighborhood where you could get a job because your skill is unique to the kind of plant you were employed at? Is this correct?

Mr. **McHenry**. Most definitely.

Mr. **Stark**. And you are aware that this full committee gave the United States Steel Company tremendous tax benefits last year under the theory that they were going to build new and efficient factories to put steelworkers in? Do you know what they did with that money? Do you have any idea?

Mr. **McHenry**. Like I said, I would rather be pumping gas.

Mr. **Stark**. Well, you should, because they bought an oil company. United States Steel bought an oil company with the tax benefits we gave them rather than build the factory that was to put you back to work. I did not know whether you knew that.

Mr. **McHenry**. Oh, yes, quite well.

Mr. **Toy**. Not only did they buy an oil company——

Mr. **Stark**. Let me just finish this. United States Steel is not going to win any popularity contests in this committee.

But literally, what do you do? I do not want to ask you how many dollars you have in savings or the equity in your house, but let me just assume for a moment that this all runs down and at some point I presume you have a choice to sell your house rather than lose all the equity.

What do you consider doing? Do you plan to move to another area? I am sure you have thought ahead on this, and I would like to think that we are going to solve your problem for you, but what are the alternatives in your position right now?

Mr. **McHenry**. Well, Mr. Chairman, Mr. Stark, my wife and I have sat down hour after hour after hour trying to think, so we do sell our home, we might sell it at $25,000, $30,000, whatever the going market price might be for the vultures out there who are waiting to consume it. Where are we going to go? You think about rent, you think about utilities.

Mr. **Stark**. Have you explored going back into police work? I notice you were trained in police work in the past.

Mr. **McHenry**. Quite a bit.

Mr. **Stark**. Are there any openings?

Mr. **McHenry**. I had one out there in right field.

Mr. **Stark**. Do not say it, because eight guys will beat you to it if they hear about it.

Mr. **McHenry**. They have to beat my qualifications, so that is no problem.

Mr. **Stark**. Would that involve moving?

Mr. **McHenry**. No; that would be local.

Mr. **Stark**. Would you prefer, if you had a chance, to move to Ohio or the Chicago area and take a coking job even though it would mean moving to a new neighborhood, selling your home, and moving your daughters to a different school? Or would you prefer getting some retraining and working, which would necessarily mean a lower income because it would take you a while to get up to the level that you were before, but staying in your community. Between those options which would you rather do?

Mr. **McHenry**. I have two outlooks to that. No. 1, I left Washington, D.C. as a police officer to go back to my home community to be more or less home based around my family working the mills, devoting my time there to raise my family there.

On the other hand, you talk about retraining. If the possibility of going to another coke oven or whatever, another steelworks were definitely there—and I mean definitely there; there is no doubt about it being there—I would definitely uproot myself, my home, and possibly move to that location.

Mr. STARK. You would rather do that than get into law enforcement work and stay in your own community?

Mr. McHENRY. Again, like I say, if the law enforcement at this point would be a little bit more job security at this point the way things are going. By the looks of it we are going to need more law enforcement than we will steelworkers, by the looks of it.

Mr. STARK. Would anyone of you be willing to itemize for the committee your expenses? This could be very helpful for the committee and staff. Specifically could you give us some idea of what it costs to either make the mortgage payment and/or what you think the equity in your house is or your rent, what your car is worth or how much it costs to maintain it, and concerns about what do you do if there is no medical care for your daughters, or could they possibly get it?

We would not use this information except anonymously. The reason I am asking for this information is because few realize or understand the financial problems created by this recession. Most people don't understand that this prolonged recession can be compared with the Great Depression of the 1930's. They always say oh, sure, things are going to get better. Well, we heard testimony this morning and we know they are not going to get better for the next 4 years, even under the optimistic assumptions that the administration is making.

And we know you are all going to run out of benefits, and if you are lucky, let us say that two out of four of you will not hit the wall; but the odds probably are that one out of four of you will become utterly destitute.

Given the fact that you may become bankrupt, some of you could be faced with the option that I have seen people in our district in California face of leaving home. You know, you could abandon your family, and then they would become eligible for aid to dependent children. We would send the district attorney after you to try to get you to support them. But there are many people in the past who have been forced into that situation.

I would like to think that we are not going to even make that an option, so I do not want you even to have to think about it. But that is an option. You may know of people who have said if I leave home and pretend I have abandoned my wife and child, then they can get aid for dependent children. That is a pretty tough choice to make.

Mr. McHENRY. It does not work.

Mr. STARK. People have tried it. I am not even suggesting that you consider it. But I am saying that the inhumanity of the program is such that it makes sense. Any information you could pencil out for us would be very helpful. I do appreciate all of you taking the time to come here.

Chairman **Ford**. Before the panel responds to that, the committee will have to recess for 10 minutes. There is a recorded vote on the House floor. Members of this committee will have to run over and vote. We will be back in about 10 minutes, and you can resume at that time.

The committee will stand in recess for 10 minutes.

[Recess.]

Chairman **Ford**. The committee will come back to order.

My colleague, Mr. Stark, is not here, and he raised the question, but he will be back shortly. But I would like to proceed with it because time is of the essence right now, and I would like to proceed at this point.

So, if Mr. McHenry or Mr. Carter is going to respond to the question that was raised by Mr. Stark, then please proceed.

Mr. **Carter**. First, I would like to clear up something. The Mon Valley Unemployed Committee does not refer to just steelworkers. We refer to all unemployed persons whether they be steelworkers, union workers, management personnel; it makes no difference. We have a hot line, we have a mortgage committee, and we help in whatever we can do. We also have food banks.

To answer Mr. Stark's question, it is specified in this blue book here exactly, but in general, a mortgage average is $350 per month payment. Utilities by the welfare department figured at $200 a month. This is their allowance for it. So, if you have a car payment on top of that, you definitely have groceries. Hospitalization runs $195 per month on the average.

Chairman **Ford**. That is a hypothetical situation. Can you be more direct? I understand what the welfare department might allocate for a house allowance, but would either of the three of you like to discuss, if you could, your personal situation?

The committee is trying to get a feel for the real impact. You told me that it is in a report and what hypothetically would be true, but can we not just say in one of your situations or someone that you might know what might be the case?

Did you buy a new car this year?

Mr. **Carter**. The railroad situation is impossible.

Mr. **McHenry**. I have told you everything else about my life. I might as well tell you this, too. Mortgagewise I consider myself at the top of the ladder. Again, like I said, I bought my house 7 years ago, and I paid $14,000 for it. It is an older home. At that time the going interest rate was about 8¾ percent. I have a mortgage payment of about $180 per month. Utility bills are more or less outrageous to heat the home, being that it is a frame home.

Chairman **Ford**. What is your utility bill a month in the winter?

Mr. **McHenry**. My gas bill this past month was $194.

Chairman **Ford**. Are you current on it?

Mr. **McHenry**. No. That was just this month's bill. I am about $80 in arrears.

Chairman **Ford**. Are you current on your house note?

Mr. **McHenry**. The mortgage payment? Yes; I am current on it. I have delved quite deeply into the unemployment checks that I do receive to make sure that the mortgage payment gets there, because if I have no house to provide for my family, I am not doing too much; I am really not serving too much of a purpose in being there.

Light bills have been continually rising. How they rise I do not know because we have been cutting back more on using electricity than we possibly can, but yet they still rise. How this is happening I do not know.

Chairman **FORD**. Do you have any insurance coverage for your children?

Mr. **MCHENRY**. Yes. We have life insurance.

Chairman **FORD**. I mean health insurance.

Mr. **MCHENRY**. Well, that is taken care of in the mortgage.

Chairman **FORD**. Health insurance.

Mr. **MCHENRY**. No, I do not have health insurance.

Chairman **FORD**. You do not have any health insurance for your children, you or your wife?

Mr. **MCHENRY**. Absolutely not a thing.

Chairman **FORD**. Have they been hospitalized? Have they been to the doctor lately? Any illness in the family?

Mr. **MCHENRY**. To this point, no. The good Lord has been watching down on me.

Chairman **FORD**. What about car payment?

Mr. **MCHENRY**. The car I have paid off. My car is paid off.

Chairman **FORD**. What about you, Mr. Toy?

Mr. **TOY**. I think I got one of the last great deals in mortgage payments. I, too, have an older home, about 80 years old, and I got one of the last mortgages issued through our credit union; so my percentage is relatively low. I got a remodeling loan—of course, with an 80-year home you have a certain amount of remodeling to do. Those two loans together run roughly $200 a month.

Chairman **FORD**. What about your car payment, what does it run?

Mr. **TOY**. My car has been well paid off. It is about 10 years old. I cannot afford—I just had a transmission problem, and the guy was able to jerryrig a solution, because if he did not I would have had to have gotten rid of the car because I could not afford to either replace it with a new car or to have the transmission fixed.

Chairman **FORD**. What about health coverage for your children?

Mr. **TOY**. Well, I am single and that certainly helps on my personal bills; but my personal medical insurance expired with the end of my steelworker coverage, and it would cost me over $300 a quarter just for my personal health insurance.

Chairman **FORD**. Mr. Carter, what about you?

Mr. **CARTER**. I am also divorced. My income is $537.50 per month as figured by——

Chairman **FORD**. That is from unemployment compensation?

Mr. **CARTER**. That is right. This is by multiplying my weekly benefit by 4.3, which is commonly accepted as the monthly income.

Chairman **FORD**. And those benefits you will have exhausted as of when?

Mr. **CARTER**. March 1.

Chairman **FORD**. So after March 1 what do you plan to do? How will you meet your payments after March 1?

Mr. **CARTER**. I have no idea. Right now my situation is impossible. It is hopeless.

Chairman **Ford**. If this committee would report out a bill to extend the Federal Supplemental Compensation program an additional 6 months but failed to extend the unemployment compensation for those who will exhaust or have already exhausted their benefits, how would you survive? How do you plan to make it? Will you qualify then for public assistance?

Mr. **Carter**. Technically, yes. On a minimal basis, yes.

Chairman **Ford**. Are you a homeowner?

Mr. **Carter**. No. I turned my house over to my former wife and kids.

Chairman **Ford**. Do you have children?

Mr. **Carter**. Yes. I have three.

Chairman **Ford**. Do you have to support the children out of that income?

Mr. **Carter**. Yes. I pay $255 a month.

Chairman **Ford**. You pay $255 a month out of $537?

Mr. **Carter**. Yes. And my car payment is $243.

Chairman **Ford**. Your car payment is $243? How do you live?

Mr. **Carter**. I do not pay the car payment. The credit union is letting me go on that. Otherwise I would not be living, so to speak.

Chairman **Ford**. Yes, Mr. McHenry.

Mr. **McHenry**. Let me clear the air a little bit, Mr. Chairman. I think out there in the realms of America today the American public has somewhat of a high image of what they call a steelworker in terms of wages.

I believe most people feel that the steelworker per se, the figures come out at $25 an hour of wages. I have yet since 1973 been able to work a full year in steel. Basically it is 6, 7 months, 3 or 4 months on layoff of some sort one way or the other.

I have yet to this point in 9 years of employment with United States Steel ever made more than $25,000. So when the American public hears $25 an hour, I would like them to stop and think about it and tell me where $25 an hour—how that ends up to anywhere near $25,000 a year.

This is one point I would like to basically make, because I think there are a lot of people out there that think that the steelworker is living high on the damned hog. If there is a hog out there for me to ride on, believe me, I will ride it, because it might mean feeding my family.

That is more or less all I want to say about the steelworkers themselves.

Chairman **Ford**. The Chair would like to thank you for your testimony, Mr. McHenry, and Mr. Toy, and Mr. Carter, for coming down and leaving so early this morning and driving down to testify before this committee, as well as being able to raise the funds to get here today to testify.

I want to thank you very much.

Mr. **Toy**. Mr. Chairman, we thank you very much for the opportunity, and we do wish to work with you and this committee and other Members of Congress, and hope we can work together.

Chairman **Ford**. Your testimony has been both fruitful and helpful to the committee. Thank you.

Mr. **Carter**. Mr. Ford, can I add one last note?

Chairman **Ford**. You may.

Mr. CARTER. You asked about the vouchers, how would the voucher program work. In effect, when United States Steel is taking steelworkers, training them to operate trains inside the mill, which the Union Railroad has been doing for 40 years, and throwing the Union Railroad out, we are both employees of United States Steel. The Union Railroad is a subsidiary of United States Steel, so they are going to gain; if this voucher program goes through, they will be gaining a tax break by just transferring the jobs from one subsidiary to their main company.

Chairman FORD. Those are questions that we will take into consideration when we take the issue up in the markup session of the committee. The voucher plan is not something that we have already adopted at all, Mr. Carter. It is something that we want to talk about with the administration today. It is a proposal that they have placed before the Congress. It is something that we will consider and take into consideration—not only the question that you have raised, but there will be many, many more raised within the coming weeks as well.

Thank you very much.

The Chair would like to call on the Interstate Conference of Employment Security Agencies, Mr. S. Martin Taylor, the chairman of the Unemployment Insurance Committee and director of the Michigan Department of Labor.

Mr. Taylor, we would like to welcome you to the committee today and look forward to your testimony before the committee.

STATEMENT OF S. MARTIN TAYLOR, CHAIRMAN, UNEMPLOYMENT INSURANCE COMMITTEE, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES; AND DIRECTOR, MICHIGAN DEPARTMENT OF LABOR, ACCOMPANIED BY CHERYL TEMPLEMAN

Mr. TAYLOR. Thank you, Mr. Chairman.

I am director of the Michigan Department of Labor and as such am responsible for operating the unemployment insurance compensation system in Michigan. I am also, as you said, the chairman of the Unemployment Insurance Committee of the Interstate Conference of Employment Security Agencies, and I am testifying in that capacity.

We have submitted written testimony to your staff in accordance with your instructions, and I am prepared to give you a summary of that written testimony.

With me is Cheryl Templeman who is head of our UI division of the association.

Chairman FORD. Your written testimony, Mr. Taylor, will be made a part of the record, sir.

Mr. TAYLOR. Thank you.

First of all, I would like to point out that I am expressing the views of the UI Committee. The membership of ICESA has not had time to formally act upon all of the measures that are before this committee.

I would like to make five points with regard to the Federal supplemental compensation, or FSC, program. First of all, we do support the extension of the FSC program beyond March 31. We think that is justified by a number of factors.

No. 1, the unemployment rate nationally and in most of the hard-hit States, is higher now than it was when you enacted the program; so if it was justified then, it clearly is justified now. Eighty to ninety thousand people a week are running out of unemployment compensation, and so this extension is appropriate. We also believe the program should be extended without changing the eligibility requirements.

Two, we think the FSC program should be modified and strengthened by allowing the States to tailor the work search requirements to meet local labor market needs. Currently, they are very stringent and inflexible, and do not reflect the local labor market conditions.

Three, there is a provision currently in the law that requires that FSC recipients be paid the lesser of the number of weeks available in the State where they earned their work credits or the State where they live. This is in the case of recipients who move across the State border. This is contrary to the way we have always operated the unemployment insurance programs. We believe that the person's eligibility and the duration of benefits should be determined by the State which pays the unemployment benefits. And, in fact, this could be contrary to the national interest. You want to encourage workers to move to other States to seek work, however, if moving to another State winds up constituting a penalty, you would in fact discourage labor force mobility.

Fourth, lump sum payments. There are a number of proposals to take an FSC recipient's benefit entitlement and pay it in a lump sum for training and relocation. We think that is terribly unsound for this reason, an individual needs the unemployment insurance, as you have just heard, to survive on. If you use the unemployment insurance to pay the cost of training or relocation, then the individual has no money to live on. We think relocation, training, and retraining are good efforts, but they dictate separate funding, not the use of unemployment insurance.

Five, wage subsidies. We do not believe that wage subsidies or vouchers will create new jobs. Our experience has been with tax credits, that employers hire someone when they need someone. A subsidy, in and of itself, will not cause them to expend their work force.

Tying a subsidy or a voucher to an FSC recipient in effect discriminates against the people who need the help the most, those who have exhausted all benefits. If you want to have a wage subsidy or a voucher program, the eligibility for that program should not be tied to unemployment insurance, there should be a different type of eligibility requirement.

I would now like to make several comments regarding repayment of Federal loans to States. Under the Reconciliation Act of 1981, two major changes were made in the law: one, interest was charged against loans after April 1, 1982; and two, a provision was put in that would cap, or put a ceiling on, the automatic escalation of FUTA taxes. The FUTA tax, as you know, is used to recoup overdue loans. A State gets approximately 2 years to pay their loan off. If they have not paid it off in that time, the Federal taxes on employers in that debtor State increase by 0.3 percent every year. If certain conditions are met, the Reconciliation Act permits that increase to be capped at 0.6 percent.

Now, the point we want to make about those two provisions is that when they were put into the law, no one anticipated unemployment of the extraordinarily high level we have experienced. Virtually no State will qualify for the cap. It is too stringent.

Second, the interest charges are absolutely driving States to the wall. We believe that the interest and the cap provisions, were put in to give an incentive to States, an incentive to States to do the right thing, to face up to their benefit levels and their taxing provisions.

If the purpose was an incentive, then we say that you ought to put in a provision which would allow a State that substantially increases its taxes, holds down benefit costs, and takes other measures to get themselves in a solvent situation to qualify for interest-free loans and a cap on the FUTA. Some suggested criteria for that provision is in our written testimony.

This, Mr. Ford, is extremely important. By the U.S. Department of Labor's own projections, over 30 States are going to be insolvent by the end of the year. More and more States are going under. The interest payments make those States do what is within their power. It seems to me that there ought to be a reward there. There ought to be some incentive to help the States do that sort of thing.

If you had a provision in the Federal law that says you qualify for this capping of FUTA and you get interest-free loans, that will assure that the States will do the most that they can. And as I said, the particulars of that proposal or that criteria are in the written testimony.

That is the summary, Mr. Ford, of my testimony. I would be delighted to try to answer any questions that you may have.

Chairman FORD. I would like to go back over the voucher that the administration talked about a minute ago and that you made mention of in your testimony. It is obvious that we are not that familiar with the proposal that the administration has talked about. It is something that we are going to consider before the committee.

We do have a concern about the recipients who would have exhausted all of their benefits at the expiration date of the FSC now, and what will happen to those exhaustees who have exhausted those benefits. If in fact the 1 million people that we are talking about the recipients who have exhausted their benefits if they were in fact protected and given the coverage, do you still feel that that would be discriminating against the unemployed who are receiving these benefits?

Mr. TAYLOR. No. If you could develop a reasonable criteria

Chairman FORD. You talked about a different set of guidelines.

Mr. TAYLOR. That is right. Do not tie it to FSC eligibility, because then you do throw out all of those who have exhausted benefits. We have several programs, the targeted job tax credit program in effect is that sort of thing. If you hire people in certain categories, then you get a certain credit against your tax. That is not a particularly unusual or a novel thing. It has been done before.

I would suggest to you that the estimates about the number of people that would secure employment that way are probably somewhat exaggerated.

Chairman FORD. They mention a figure of 700,000. So you disagree with the administration's figures there?

Mr. TAYLOR. Yes. All of our experience has been that employers will not hire someone because there is a voucher or a tax credit. They hire someone because they need someone. The cost of hiring an individual is extremely high with all of the benefits and the liability, et cetera.

Chairman FORD. The administration talked about an option you could opt out for if you wanted to say no to the cash unemployment benefits and decide to go with the voucher plan, which would be for a period of rather than 16 weeks, it would be for a period of 32 weeks at 50 percent of the cash payment.

Mr. TAYLOR. And I would submit to you that that is not going to create a lot of jobs. Offering an employer a $50 per week subsidy for 20 weeks or 30 weeks is not going to make them actually expand their work force for that alone. I do not think the history of tax credits under the work incentive program, TJTC, et cetera, has demonstrated that.

Chairman FORD. What about the employer who would feel that to bring in two or three new people with the proper skills or training, that this might be the incentive that would be needed in order to give him the tax credit for his tax liability or whatever purpose, to bring that person in for a period of time?

Mr. TAYLOR. It could help a company that was marginal, I would think probably smaller companies. I do not want to mislead you, I do not say that I am opposed to it, but I am saying that I think that the estimates on the number of jobs that it will in effect create is much overstated.

What I think it will do, in some instances with smaller employers where the subsidy will make a difference, they might hire a little earlier than they would ordinarily.

Chairman FORD. You know, the administration is proposing that the FSC benefits be limited to those who have at least 30 weeks of employment during the base year preceding their employment and have become unemployed by reasons other than that of voluntarily quitting their job. Can you respond to that?

Mr. TAYLOR. We are very, very much opposed to that. One of the things that I hope the committee can recognize is the fact that the unemployment insurance systems have an extraordinary burden that they are carrying now. There are millions of people, the offices are jammed, and the business of processing people and getting them through is a very tough thing.

Under most extension programs individuals come in on the last day under the regular plan and you see that they are exhausting their benefits. All you have to do is look at one little box on the form and see the number of weeks that they were eligible for and from that you can determine how long they can draw on the extension and that is it. It is a matter of minutes.

Now, remember, when you are processing millions of people a minute or so for every person is very important. If you were to change it to 30 weeks, we would now have to tell that person in a crowded office, where in Michigan we actually have people standing outside the office in the cold, we would have to say, now, you go over there and sit down. We will have to get your records out, we will have to check to see if you do have 30 weeks in your base period.

In many instances we will not even have that, because it was not relevant to the initial determination. In addition to that, which is more than enough reason to not do it in my judgment, but in addition to that we have a tremendous number of people over the last couple of years who have been laid off, called back, laid off, called back. So you could have an individual who would be disqualified under this 30-week provision who has a 20-year history of working.

Chairman **Ford**. In other words, the 30-week work test would not determine whether or not the person is connected to the work force?

Mr. **Taylor**. Absolutely would not, absolutely would not.

I urge you to refer to the State attachment to work force test. They have been worked out over the years. They are basically solid and credible.

Chairman **Ford**. I raised the question with the administration whether they are proposing that for the purposes of saving money or whether or not they are really trying to determine whether or not a person was connected to the work force.

Mr. **Taylor**. It is not related to attachment to the work force, I can guarantee you.

The other provision, on voluntary quits and so forth, is almost in my judgment as bad. If you were to put in a provision that says, we disqualify a person who has voluntarily quit their job, irrespective of what was determined by the State system, let us take an example of a female worker who quit the job because her supervisor said that unless she gave him sexual favors that she would be fired.

Under this provision you would disqualify that woman. Now, you see, under the State laws, almost all the State laws under those circumstances, if that woman quit her job and she filed for unemployment compensation there would be a hearing. A determination would be made that she quit her job for good cause and therefore is not disqualified.

Now, under this you are somehow going to wipe out that adjudication that was made of good cause and just arbitrarily say you are not eligible, and that just makes absolutely no sense to me.

Chairman **Ford**. Are you saying that the new requirements that the administration is talking about are not justifiable in any way?

Mr. **Taylor**. In my judgment they are not. I think they are calculated to reduce costs. They are not related to attachment to the work force or the merits of eligibility. If you want to reduce costs, well, you can do almost anything arbitrarily, but it is not related to merit.

Chairman **Ford**. Mr. Campbell.

Mr. **Campbell**. Thank you, Mr. Chairman.

Let me pursue that just a little bit. The State attachment to work force test that you speak of, is it not true that it is different for different States in the country?

Mr. **Taylor**. Yes.

Mr. CAMPBELL. In trying to deal with a national program, if we were going to pursue that and I tend to agree with you along those lines, would we not have to try to come up with what was at least a means test?

Mr. TAYLOR. No, sir, I do not think so.

Mr. CAMPBELL. The reason I raise that point is that as I look at the problems many of the States who have borrowed are in bad shape. I know Michigan has done a good job now of getting straightened out, or trying to. But a lot of them have not. A lot of them have not gone into debt, even though they had the high unemployment, primarily because they changed the percentage of their tax that was going in or their base. They looked at their wage base or they looked at their benefits and they kept them in balance.

Would not the same sort of thing be true here if different tests were applied?

Mr. TAYLOR. Two things. I think the underlying assumption that the reason why some States are not insolvent is because they have looked at their system and they have a good system, I would really question that, with all due respect. The vast majority of States that are insolvent and those that are rapidly becoming insolvent and some that never dreamed they would are becoming insolvent, for one simple reason: They have extremely high unemployment rates.

Let me give you an example. Before our reforms that we put through just at the end of 1982, in order for Michigan not to have become insolvent our weekly benefit amount would have had to have been $58 a week, which would have restored about 16 percent of lost wages. The reason why Michigan is insolvent is because its unemployment rate is 17 percent, and it has had double-digit unemployment for 36 consecutive months.

Now, you take any State in the country and you tag 10 percent unemployment rate on it——

Mr. CAMPBELL. I grant that. I am not questioning that that is a contributing factor.

Mr. TAYLOR. That is the significant prime factor.

Mr. CAMPBELL. I think that is a major factor and I think we all realize it. But I also think a major factor is that many of these four or five States that are in trouble have some of the highest levels of benefit payments, and also when you take it across the board—and I have the list up here. But also when you take it and look at the percentage of taxable income paid into unemployment, we find a very low percentage paid in.

One of them, not Michigan but another one of the major States that was in some financial trouble, was paying in as low as 1.5 percent rate. We had others paying in at 2.3, 2.5, that were solvent.

What I am saying is that I was using that as an example. What I am saying is that we have a combination of, yes, high unemployment, but we also have some other factors, and that has to do with your benefit payments and your income coming into your basic system, which is different among the States.

And the point I was making is that if we apply different tests to work force attachment, then we are going to have different groups paid and not paid across the country, and to me that would seem very unfair because we are not dealing with a State system, we are dealing with an extension at the Federal level.

Mr. TAYLOR. Two things. Putting aside the argument of what causes insolvency for the moment, these two provisions, though, are not good ways to do what you say you would like to do. The 30 weeks is just not a way to test whether a person had attachment to the labor force. The voluntary quit is just not a way to find out whether a person is really unemployed due to their own making. I mean, I would just submit that is not the way to do that sort of thing.

Now, whether you want to have in effect a Federal qualifying requirement for extended benefits, I suppose you could do that. But if you want to do that, then you have got to go into the whole plethora of items that make up eligibility for unemployment compensation. You have to have a Federal standard for eligibility.

If you do that, sir, then you are going to have to fund us to do it, which means that what you are doing is that once a person exhausts benefits you want us to bring them in and go through a new eligibility determination process. And that means in effect that we are starting all over again.

Now, on the average we were paid on a continued claim something like a couple of minutes per claim. That is the way we are funded, about 1 minute or 2.

Chairman FORD. Well, right now is there not a 20-week uniform test applying to all 50 States?

Mr. TAYLOR. Yes; on EB all 50 States are using the 20 weeks.

Mr. CAMPBELL. So what we are talking about is 30 instead of 20, not as to whether there is a test or not. There is already in effect one there, is there not?

Mr. TAYLOR. But now in Michigan what you are going to say to me is that I am asked with regard to each exhaustee to determine whether they have 30 credit weeks or not, and that is not easy.

Chairman FORD. Let me pose one question. Will these changes increase the administrative costs or require additional administrative procedures if this 30-week test was placed into this bill?

Mr. TAYLOR. Absolutely, absolutely. No question about it.

Chairman FORD. And that administrative cost is a burden and a responsibility of the Federal Government.

Mr. TAYLOR. That is correct.

Chairman FORD. That is not a responsibility of the States? In other words, that money is paid for administrative costs and procedures by the Federal Government?

Mr. TAYLOR. Yes, sir, it is paid out of the Federal Unemployment Tax Act, FUTA. And all the employers are charged that FUTA tax. It is routed through Washington, but comes back to the States.

So the administration of unemployment insurance is paid federally, and yes, you would substantially increase the administration costs.

Mr. CAMPBELL. How do you determine now the 20 weeks?

Mr. TAYLOR. You do it in what is called the initial determination, when the person is called in and they fill out an application and a claims examiner looks at it. We also then send a written request to the employer or employers asking them to send information about how much they paid the person, how long they worked, et cetera, et cetera.

Mr. CAMPBELL. So you already have a pool and you already know who those with 20 weeks are?

Mr. TAYLOR. Yes; we know how many have 20 weeks.

Mr. CAMPBELL. So in effect you've already eliminated all those that were not 20 weeks?

Mr. TAYLOR. That is correct.

Mr. CAMPBELL. So we are only dealing with those who have the 20 plus 10, so this is a smaller unit to deal with.

Mr. TAYLOR. A few tens of thousands.

Mr. CAMPBELL. So the administrative cost would be less than looking at the overall pool, because you have already gone through some establishment, is that right?

Mr. TAYLOR. That is right.

Chairman FORD. I think the point that the administration testified to earlier is that we are talking about 1.3 million applicants, and that test has been placed at 20 weeks. And I would think that the 1.3 million people that would be affected trying to identify the 300,000 that the administration uses as a figure, each and every one of those applications would have to be reexamined at some level; is that correct?

Mr. TAYLOR. That is correct.

Mr. CAMPBELL. Of course, you could go into a reverse situation. You could have an individual, when he applied for the extended benefits, could have just a simple certification that he had the 30 weeks, with a penalty of cutoff, and randomly check on that basis.

Mr. TAYLOR. Do you mean, in other words, just ask the claimant if he had 30 weeks?

Mr. CAMPBELL. Well, you would know whether he had 20, because I assume that your whole system is already computerized.

Mr. TAYLOR. No; it is not computerized. You have refused to give us funding to computerize. Ours is totally a manual system. We are in the process of trying to get it automated, but the U.S. Department of Labor has refused to fund us for it.

Mr. CAMPBELL. If it were automated it would make it a lot easier, would it not?

Mr. TAYLOR. It would make it a lot easier, yes.

Mr. CAMPBELL. I am beginning to appreciate your problem.

Mr. TAYLOR. But it would not eliminate it entirely, because this is not relevant to the initial determination. You do not ask it. So you might not have the necessary amount of information in the file to make a determination whether the person had the 30 weeks or not.

Mr. CAMPBELL. But you would have the 20?

Mr. TAYLOR. Yes, sir.

Mr. CAMPBELL. That is the point I keep going back to. You already have it. Somebody comes in and they have 20. You already know that they have 20, and they say, I have 30 and I am eligible for the difference. And we are talking about 1.3 million people and you could have a penalty or a cutoff or whatever you want to do for false information, which you already have.

I agree with you, you are going to have some slippage in that, but there are ways to work with it. And the point I am making, I am not married to the 30-week test by any stretch of the imagination and the State attachment to work force test. If they were the same, I would say, sure, that is the way we ought to go, because you already have it. But when they are different in Michigan or Illinois or Tennessee or South Carolina, then somebody is going to get extended where in another State the same person under the same circumstances is not, and that is not fair. That is the point I keep driving toward.

How would you suggest that we handle this?

Mr. TAYLOR. I will tell you that. To remedy that problem, the problem of A in one State getting it and the same person in another State not getting it, you would have to start from scratch and have a Federal standard, and that will negate all of any savings that you might even hope to generate.

I would submit to you, I think I know the unemployment insurance system fairly well in the United States. It is not really that great a difference among the various States.

We have quite different ways in which we make the calculations and how we make the determinations, but in the main a person with a long attachment to the work force is eligible and they draw. It may be 1 week or 2 less, the dollar amounts may be different, but it is quite similar.

I do not think that to my knowledge organized labor, representing workers, or the States are really concerned about the differences among the States. When you have a regular State plan and then you have something like an extended benefit program that piggybacks on that and uses the same eligibility and then a third tier, FSC, using the same, you can administer that, you can have some integrity to that system, and it works fairly well.

Mr. CAMPBELL. So in essence, we could; and I am not proposing this, but from what you said we could leave the 20-week requirement because you already have it and then you could apply the State attachment to work force test that exists. We are talking about 300,000, you probably would solve a lot of that problem on anyone who was attached, is that right?

Mr. TAYLOR. That is right.

Chairman FORD. One final thing. Mr. Taylor, Michigan was working with the 20-week work test prior to the Federal Government imposing that in the legislation, is that correct? You had already adopted that?

Mr. TAYLOR. We have changed to the 20 weeks, yes.

Chairman FORD. But there were also 20 or so other States prior to the Congress acting who had that 20-week work test, is that correct?

Mr. TAYLOR. I do not know whether I understood your question.

Chairman FORD. There were other States already using that procedure prior to——

Mr. TAYLOR. Yes; the 20 weeks.

Chairman FORD. So once the Congress acted on the 20 weeks and made it uniform for all States, half of the States were already using that procedure. Maybe not half, but it was some number close to half of the States.

Mr. TAYLOR. Only for EB, Mr. Chairman. All States.

Chairman **Ford**. The point I am trying to make now is, to move to the 30 weeks, I do not think there are any States at the present time using that, the 30-week work test.

Mr. **Taylor**. I do not believe so.

Chairman **Ford**. So we would have to implement it in all 50 States, rather than half or slightly over half.

Mr. **Taylor**. That is correct.

Chairman **Ford**. Thank you very much.

Mr. **Campbell**. The voluntary quit, one of the problems that I have with that is that there are different reasons that people leave the work force.

However, as an employer for a number of years and dealing with it, I generally find that even somebody that walks off the job is merely disqualified for a period of weeks, either 3 weeks, 5 weeks, and then goes on the system and draws. With no harassment and no reason, they walk off and they draw. We have found this and I have seen it in our State.

How would you deal with that circumstance, and should there not be some protection there for a voluntary quit, somebody that quits without a reason? There is a finding and a disqualification of benefits for that particular person for a period of so many weeks before they are eligible to draw.

Now, we need to deal with that situation.

Mr. **Taylor**. Well, in many, many States, such as Michigan, for example, with a voluntary quit you are not eligible again unless you are reemployed. In other words, you have to get another job and become eligible again. Now, I believe that is true in the vast majority of States. If you go back 3 or 4 or 5 years there were many more States that had a provision that said, "If you voluntarily quit, there was no good cause attributable to the employer, and if you stayed out for *x* number of weeks, you automatically requalified."

I do not think there are many States that have that provision now.

Ms. **Templeman**. There are very few, but no one——

Mr. **Campbell**. But it would be reasonable, if we were dealing with trying to establish a 20-week test, the State attachment to the work force, it would be reasonable to say that a disqualification for a period of time or a denial for a voluntary quit would be something you could put in, and that would not cause any problem, would it?

Mr. **Taylor**. Well, Mr. Campbell, I guess the problem is that, I think, that if you are going to try to have extension programs such as this, that you have to rely upon the validity of the State laws. And I am opposed to the basic principle, as well as the association, of the Federal Government dictating to individual States just how they ought to tailor their unemployment insurance system.

We believe that way even in the case of extensions. We do not think that you should give us a separate way of determining eligibility other than what the system in the State has already determined, and a give and take between the employers and labor and the business interest decisions have been made.

We think that they are fairly decent decisions. We would like for you to defer to them, because the problem that comes up, once again, is every time you change the qualifications, no matter how good the purpose may be, you then require us to examine each and every person anew for eligibility requirements, and that is costly and time consuming.

Mr. **Campbell.** I appreciate what you are saying, and I do not want to see the Federal Government impose this, either. But what I do see and the point that bothers me and I am accepting that you say that most of the States' attachment tests are pretty equal across the board—but what I am really trying to determine is that we would fairly treat a person in one State. Your State denies someone benefits, period, if they have voluntarily quit without good cause.

Mr. **Taylor.** Right.

Mr. **Campbell.** If there is a State that does not deny but merely penalizes them 2 or 3 weeks, that person in your State might be denied something somebody next door might get. That is the only point I am trying to get to. If a denial and a deferral should not be treated the same.

Mr. **Taylor.** I understand, Mr. Campbell, but I am just suggesting to you that to find that out, to find that limited problem, to ferret it out, you are going to cause a tremendous amount of work and a tremendous amount of money, and I think you will spend far more than what you will save. In finding the few people that you are going to disqualify under that system you are going to spend several times that much in administration.

It is not easy to do and I know it is difficult to think about it, but you really have to think about the volume of people. And when you start talking about in a State like Michigan or Ohio or Illinois, when you start thinking about 2 to 3 more minutes with an individual, you are talking tens of millions of dollars of administration, new staff people. We do not have the offices to do it. If you slow up a line, for example, by 2 to 3 minutes, it makes a difference between everybody being inside an office or having lines two blocks long.

Mr. **Campbell.** In your State, there wouldn't be anybody because they would have been denied to begin with and it would not impact you.

Mr. **Taylor.** I am here, though, representing all the States.

Mr. **Campbell.** I understand, but I am just wondering whether the States keep the records if there is denial, obviously they are not on it. If there is a deferral of time, I am just wondering if they were not categorized separately.

Mr. **Taylor.** Oh, no, they would have to go back and pull the original file. And if the individual has moved from one office to another, that again causes a problem. But they would have to pull the file.

Also, if the person was in a State benefit, had moved from one State to the other, that would necessitate writing the other State to make a determination, and again, going back to that local branch office files and so forth. It gets to be quite a problem.

[The prepared statement follows:]

STATEMENT OF S. MARTIN TAYLOR, DIRECTOR, MICHIGAN DEPARTMENT OF LABOR AND CHAIRMAN OF THE UNEMPLOYMENT INSURANCE COMMITTEE, REPRESENTING INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

SUMMARY

The Interstate Conference of Employment Security Agencies, Inc. (ICESA) represents administrators of state unemployment compensation laws and public employment offices throughout the country. The views expressed in this statement are based on recommendations of ICESA's Unemployment Insurance Committee.

Federal Supplemental Compensation (FSC)

We support extending FSC beyond the current expiration date, March 31, 1983, because both the rate of unemployment and the number of people exhausting benefits remain high.

FSC would be strengthened by modifying the work search requirements to allow states to tailor requirements to meet local labor market conditions.

The requirement that FSC recipients receive the lesser of the number of weeks available [illegible] the agent or liable state should be repealed.

Making lump sum payments, in lieu of weekly benefits, for training and relocation costs would assist very few FSC recipients.

Using a portion of FSC payments as a wage subsidy would not stimulate new jobs, would give FSC recipients a competitive advantage over those who have exhausted benefits, and would be susceptible to abuse.

Loan repayment conditions

The Omnibus Budget Reconciliation Act of 1981 made two major changes in loan repayment conditions: 10 percent interest is charged on all loans made since April 1, 1982; and states are allowed to "cap" the automatic FUTA credit reductions if certain requirements are met.

These changes were intended to provide incentives for states to maintain solvent unemployment insurance programs and to allow the repayment of loans to be stretched out in order to avoid tax increases so large that business would be driven out of the State.

Economic conditions have been far worse than anticipated when the provisions of the 1981 Budget Reconciliation Act were agreed upon. This has resulted in large liabilities for interest and has made the "cap" requirements too difficult for most States to meet.

The interest and "cap" provisions should be reexamined in light of the deterioration in the economy. Changes should be made which maintain incentives for solvency but provide some relief for those states that have taken responsible action.

STATEMENT

Mr. Chairman, members of the Subcommittee, I am S. Martin Taylor, Director of the Michigan Department of Labor and Chairman of the Unemployment Insurance Committee of the Interstate Conference of Employment Security Agencies, Inc. (ICESA). Our organization represents administrators of unemployment compensation laws and the public employment system in the 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. We are pleased that you are considering two important issues involving the unemployment insurance system: the extension and restructuring of Federal Supplemental Compensation; and the conditions under which federal loans are made to states for unemployment benefit payments.

The views expressed in this statement are based on recommendations of the ICESA Unemployment Insurance Committee. The full membership has not, as yet, had an opportunity to consider these recommendations as policy positions.

Federal Supplemental Compensation

We urge you to extend the Federal Supplemental Compensation program beyond the current expiration date of March 31, 1983. The economic conditions which brought about this program continue to exist, with unemployment predicted to average more than 10 percent for the remainder of this year. The number of people who have used all of the regular state UI benefits available to them is also at an alarming level; about 80,000 to 90,000 are exhausting regular benefits each week.

We believe that the FSC program and the Extended Benefit program could be strengthened by modifying the work search requirements. Under the current law, recipients of FSC are required to make an "active and sustained search for work" each week for which benefits are claimed. This means that the individual must visit the place of business of several prospective employers each week and file an application or make an inquiry for work. These requirements are inappropriate in areas where literally no jobs exist. FSC recipients must spend money to travel to companies each week when they know the firm is not hiring, and where they have previously filed applications. In many areas there are only two or three major employers, and when they are hiring the word gets around quickly. We have all seen pictures of hundreds of people lining up to apply for a handful of job openings.

In light of these constraints, we urge you to allow states more flexibility in determining work search requirements. States should be allowed to determine what constitutes an appropriate work search for FSC recipients, based on local labor market conditions.

Another change we would urge you to make is repeal of the recently enacted amendment to the FSC program which requires that individuals claiming FSC on an interstate basis receive either the number of weeks available in the state where they live or where they are entitled to benefits, whichever is less. In other respects an individual's entitlement to benefits is determined by the laws, regulations and policy of the state where his wage credits were earned. In fact, states are prohibited by federal law from treating an individual who claims benefits on an interstate basis differently from those who remain within the state's borders. The three tier FSC program, with the possibility of movement either up or down by either the agent or liable state makes administration of this provision extremely complicated and costly.

Alternatives to FSC benefits

Various proposals have been made to make Federal Supplemental Compensation available in a form other than weekly benefit payments. The two major alternative methods of providing benefits are: lump sum payments or vouchers for training expenses and relocation costs; and wage subsidies. The concept of allowing FSC recipients to give up their entitlement to weekly benefits in exchange for a lump sum payment or voucher which would be used for training supposes that the following conditions exist: the individual has other income to meet his living expenses during the training; jobs are available for which he can become qualified through training; and training programs are available for these jobs and do not cost far more than the amount of the lump sum payment. In our opinion these circumstances would exist for very few people.

Similarly, allowing the use of FSC benefits for relocation would have very little impact. Experience with Trade Adjustment Assistance has shown that relocating is the last option people will consider. Unemployed workers, like other people, have ties to their communities in terms of both property and personal relationships. In areas where unemployment is high the real estate market is likely to be depressed and if homes can be sold at all, it is likely to be at a loss.

The wage subsidy proposals would permit some portion of the FSC recipient's weekly benefit amount (50 percent and 75 percent have been mentioned) to be paid to the employer either directly or as a voucher for tax credit. This would presumably encourage employers to hire FSC recipients by defraying the cost of their employment for six to eight months.

Unlike training and relocation, the concept of wage subsidies is one with which we have very little experience. In theory the use of Federal Supplemental Benefits as a wage subsidy would make it more attractive for employers to hire FSC recipients, but it would give them a competitive advantage over other unemployed workers who have exhausted all benefits available to them. If the federal government wishes to influence employer's hiring decisions, it seems unfair to influence them in favor of those who still have some income rather than those who have none.

Employers will hire new workers with or without a subsidy only if there is work for them to do. If there is no market for the employer's goods or services, he is not likely to expand his workforce. This raises the necessity for policing such programs to ensure that the employer does not replace his present workforce with workers who bring a subsidy and that these workers are not recycled every six or eight months as soon as the subsidy period is over. The regulations, certifications, determinations and penalties necessary to prevent abuse would be mind boggling.

Federal loans to States for UI benefits

Revenues generated from the Federal Unemployment Tax, referred to as FUTA, finance the administrative costs of the state-federal employment security program, pay the federal share of extended benefits, and provide for loans to states with depleted reserves. Until the decade of the 1970s, there had only been limited borrowing by the states to meet trust fund deficits. However, the back-to-back recessions of the

1970s, the short-lived recovery, and the continued high levels of unemployment have crippled the economies of many states, forcing them to seek federal Title XII advances for benefit payments. By 1978, twenty-five jurisdictions had borrowed from the Federal Unemployment Account (FUA) to meet benefit obligations; as of December 1982, a total of 34 states and territories had received loans at some time since 1972 and 23 of these had outstanding loan balances totalling $10.6 billion.

The Omnibus Budget Reconciliation Act of 1981, made two changes in the conditions under which federal loans to states for UI benefits are granted. First, states with overdue federal loans would be permitted to limit the automatic FUTA credit reduction if certain requirements were met, and second interest would be charged on loans made after April 1, 1982. Prior to that date loans were interest-free.

FUTA offset credit reduction

If a state's loan is not fully repaid within two years, the FUTA tax collection mechanism is automatically set into motion which results in escalating FUTA credit losses of 0.3 percent, 0.6 percent, 0.9 percent, etc. until outstanding loans are fully repaid. These tax credit losses are equivalent to a net increase in FUTA taxes.

In response to the difficulties of debtor states who were faced with the triple objectives of meeting current benefit payments, restoring fund solvency, and repaying existing loans, the loan repayment process was amended by the Omnibus Budget Reconciliation Act of 1981. Provisions of this Act limit or "cap" the amount of the tax credit loss for those states satisfying for the certain UI financing and fund solvency criteria. For a state qualifying for the cap, the annual tax credit reduction is limited to 0.6 percent, or the rate that was in effect for the state for the preceding calendar year, whichever is higher.

The cap provisions were designed to give states additional time to enact belt-tightening administrative and legislative changes needed to achieve solvency. By limiting the net federal tax credit loss to 0.6 percent, states have a better opportunity to reform their own benefit and financing programs. These provisions lengthen the repayment period, but do not reduce a state's total liability.

In order to qualify for the cap on the FUTA penalty tax a state must demonstrate that:

1. The net solvency of its UI system has not diminished;
2. There have been no decreases in its unemployment tax effort;
3. Its average tax rate for the calendar year equals or exceeds its average benefit cost rate for the prior five years; and
4. The outstanding loan balance as of September 30th of the calendar year is not greater than on the third preceding September 30.

The criteria for obtaining the cap become increasingly more difficult to satisfy. In 1981 and 1982, only criteria (1) and (2) needed to be satisfied for cap eligibility. Beginning in 1983, however, all four criteria must be satisfied.

Interest charges

Prior to April 1, 1982, no interest was charged on federal loans to state unemployment trust funds. The decision to charge interest was based on the arguments that it would provide an incentive to states to maintain solvent trust funds and that the federal government was paying interest on the funds it loaned to the states.

Of the $10.6 billion in loans to states, interest is being charged at a rate on 10 percent on about $3 billion. Fifteen states have interest bearing loans outstanding.

Recommendations for changes to interest and cap requirements

At the time the loan repayment provisions of the Omnibus Budget Reconciliation Act of 1981 were agreed upon, the economic projections indicated that most states would not continue to borrow, or would borrow relatively small amounts. It also appeared that states would be able to meet the requirements for limiting the offset credit reduction to 0.6 percent. The actual economic conditions in the last 18 months have been far worse that the assumptions that were in effect when this legislation was adopted. The result has been that many states are incurring large interest obligations, and perhaps only one state will be able to meet the cap requirements for 1983.

We believe that the conditions of borrowing and repayment should be reexamined in light of the deterioration of the economy which was not anticipated when the interest and cap provisions were agreed upon. This legislation was intended to provide incentives for solvency and to allow states to stretch out repayment of loans, however, this intent has been subverted by the current recession.

Changes should be made in the loan repayment provisons which maintain incentives for states to restore solvency but provide relief for those that have taken responsible action. States that have made substantial steps toward solvency should be relieved from interest charges and allowed to limit the FUTA offset credit reduction. Some suggestions for criteria which demonstrate fiscal responsibility might include the following: no net decrease in solvency; no reduction in tax effort; change in state law which increases tax revenues by "X" percent; a limit or reduction in benefits if the state's benefit structure is higher than the national average; and no new net borrowing unless the states average tax rate is higher that the national average by, for example, 30 percent.

This list is by no means exhaustive, however, we urge you to carefully consider the concept of providing some relief from interest and escalating FUTA credit reductions in states where the maximum effort possible is being made to restore solvency and repay outstanding loans.

Thank you for the opportunity to present our views to you today regarding these issues which are crucial to the unemployment insurance system. I will be happy to answer any questions you may have.

Chairman **FORD**. We want to thank you, Mr. Taylor, for your testimony and also, responding to the questions that have been put before you by the committee. Thank you very much, once again.

The committee will call Sister Agnes Mary Mansour, the Michigan Department of Social Services, as the next witness before the committee today. We would like to thank you very much for coming over and participating with us today, and we look forward to your testimony before the committee. You may proceed.

STATEMENT OF SISTER AGNES MARY MANSOUR, DIRECTOR, MICHIGAN DEPARTMENT OF SOCIAL SERVICES

Sister **MANSOUR**. Thank you very much. My name is Agnes Mary Mansour, and I am the new director of the Department of Social Services for the State of Michigan. I appreciate this opportunity on behalf of Governor Blanchard and my department and the people of the State of Michigan.

The State of Michigan is suffering levels of unemployment never experienced in the lifetimes of most of its residents. There are more people unemployed in Michigan than there are living in the cities such as San Francisco, Memphis, Boston, and New Orleans. The populations of Pittsburgh and Tucson together would not equal the number in Michigan who are actively looking for employment.

As a result, a record number of people, almost 1.4 million, are now receiving financial assistance from the department of social services. Whatever term is used, crisis, tragedy, recession, or depression, the hardship currently experienced by residents of Michigan is almost impossible to comprehend.

Indeed, this problem of unemployment cannot be fully understood unless we periodically focus attention on the individual victims of our depressed economy. While it is essential to be aware of unemployment's breadth and magnitude, we risk obscuring the core problem if the issue is joined only in the abstract of unemployed rates and aggregate economic growth. We must maintain an awareness of the burden currently being borne by unemployed individuals and their families.

For these previously productive contributors to the Nation's economy, the crisis is both financial and personal. The financial hardship is obvious, but the personal hardship deserves attention as well. The transition from being a welder, a carpenter, an accountant or an assembler to being unemployed can be a challenge to an individual's basic sense of dignity and self-worth. Additionally, the families and friends of the unemployed often face new difficulties as they are called on to provide financial or emotional support.

This tragedy of unemployment demands a response when it affects a single worker who has spent months or years in an unsuccessful search for work. But we are addressing it today as a public policy issue because it is not just a few isolated individuals who are affected. Across our State, three quarters of a million people are out of work and thousands more have fallen to such hopelessness that they are no longer looking for work.

When one includes other family members who suffer because of unemployment, it is clearly an understatement to say that 1 million residents of Michigan are currently direct victims of unemployment.

The severity of this unemployment is magnified by its duration. When the national unemployment rate recently exceeded 10 percent for the first time in 40 years, the public debate over unemployment's causes and potential remedies escalated quickly. As our State enters its fourth year of double-digit unemployment, we welcome this belated concern for the victims of unemployment now being shown by policymakers nationally.

The severe unemployment of recent years has greatly damaged Michigan's fiscal health. State tax revenues are down, Federal aid is being reduced, yet demands for services continue to increase. Among State agencies, the Department of Social Services has felt this increased demand for services most acutely. We have in Michigan a longstanding and sincere commitment to help those in need. Therefore, we support the optional AFDC unemployed parent program, and we fund a general assistance program to provide for the needy not covered by Federal programs. Both of these programs are very sensitive to economic conditions.

In December 1979 there were 15,900 AFDC–UP cases. In December 1982, the number had nearly tripled to 43,500. And just in January of this year, it is up to 47,000. In December 1979 our GA program served 62,800 cases, mostly single adults. Three years later, almost twice as many cases, 120,600, were being helped. And this number in January also increased to 122,000.

Michigan's fiscal crisis has forced actual cuts in grant amounts and some trimming of eligibility, but we have not abandoned our basic commitment to help the needy. These programs, in conjunction with unemployment compensation, have kept thousands of families and individuals from total financial ruin.

Unemployment compensation is the first income support program available to laid-off workers. In Michigan, the newly unemployed are able to receive 65 percent of their take-home pay up to about $200 per week for 26 weeks during the regular benefit period. Up to 13 weeks of extended benefits have been available as well since late 1979, except for one period when the trigger formula had the perverse effect of eliminating the extended benefits in Michigan for 3 months, when unemployment was actually rising and averaged 15.5 percent. The recent changes in the trigger formula make this likely to occur again.

The addition last fall of 10 weeks of Federal special compensation and the recent addition of 6 more weeks improves this primary income support system. This system is critical because it provides, in almost all cases, more money than public assistance, thereby giving an added opportunity for unemployed individuals to make a transition to a new job or to acquire new skills. Yet, because of the time limit on unemployment compensation and because Michigan's labor market has been depressed for 3 years, hundreds of thousands of workers have exhausted their unemployment benefits in our State.

These exhaustees turn to other support systems. Many are relying on the earnings of other family members, some are living off savings or loans from friends and relatives. Others have turned to public assistance. We know that at a minimum—and I think it definitely is a minimum—30,000 AFDC cases have opened due to exhaustion of unemployment benefits over the past 3 years.

These cases, which include at least 100,000 people, receive public assistance because unemployment benefits are not available long enough and because their skills and efforts were not demanded by a depressed economy. These families, all these families include people with histories of productive work effort, who are the victims of an economic environment over which they have had little or no control.

In the face of this hardship, we as public policymakers must respond. What forms should this response take? Foremost, adequate financial assistance must be provided. With no likelihood of significant reductions in unemployment, an extension of the FSC program is unquestionably warranted. For Michigan, an extension would help the hundreds of thousands now receiving unemployment compensation to continue to support themselves.

In addition, we estimate that an extension would mean about 3,500 fewer AFDC cases in Michigan during the last half of this fiscal year. This would save about $4.3 million in badly needed State funds with an equal savings to the Federal Government in reduced matching obligations.

Federal food stamp savings over the period would be at least $1.9 million in Michigan as well. The State savings will help us fulfill our commitment to the needy who are not employable, and the children, elderly, and disabled who rely on the department of social services even in prosperous times.

Yet, an extension of the FSC program would be only a partial solution. Other fundamental financial burdens face these individuals as well. The loss of a job often means loss of health insurance. We risk long-term health problems among the unemployed and their families unless this problem is addressed. The loss of income can also mean the loss of a home or a family farm, a severe additional penalty for those who are already victims of the recession.

The financial burdens of unemployment have also contributed to other problems. Michigan recently reported a significant increase in infant mortality. Neighborhoods within Detroit are experiencing an epidemic of infant deaths, with one area having a rate of 33 deaths per 1,000 live births; the level reported for Honduras, one of the poorest countries in Central America.

The demands on food banks and temporary shelters resulted in the declaration of a human emergency in the State. The severity of child abuse and spouse abuse is increasing. And as these problems escalate, our ability to respond has been limited.

Last year's cutbacks in title 20 funds restricted the availability of day care and protective services for children. Cutbacks in nutrition programs and food stamps have forced people to turn to soup kitchens and food banks. The current rule in the emergency assistance program that only one emergency per year per family can be covered has led to increased demands on local and community groups.

And in the face of these cutbacks we receive Federal matching funds in AFDC and medicaid based on personal income figures from the years 1978, 1979, and 1980; a formula which fails to reflect the true need of the individual States.

These problems also must be addressed. It is, after all, government's proper role to act to alleviate the hardship of its citizens. It is all the more important to act on behalf of those who have contributed to the economy but who are now victims of rapid economic change. Many of the unemployed and this is particularly true in Michigan will not be called back to work even when a recovery occurs.

Just as we recognize the public obligations and the public benefits of educating our youth, we must look at the training needs of workers who have demonstrated their willingness to contribute but whose skills are now obsolete. We must reorient ourselves to the new reality that retraining will become a regular part of the adult work life.

The importance of a fresh look at the needs of the unemployed and the poor is clearly missing in the proposal for a mandatory work relief in AFDC. Work relief is a valuable activity for many clients, and Michigan has taken advantage of it for tens of thousands of public assistance recipients. But a policy that would force hundreds of thousands to join the unemployed in a search for work sites is unacceptable. What is needed is maximum flexibility which allows the States to develop the appropriate mix from a range of activities.

To summarize, by extending unemployment compensation we provide part of the response needed to alleviate the tragic circumstances of literally millions of individuals victimized by the recession, but more is needed. A reform of emergency assistance and increased funding for low income energy problems and title XX programs are also needed. A matching formula in AFDC and medicaid should be revised to be sensitive to the current economic conditions. Real solutions to joblessness and training must be found so as to avoid resorting to generalized gimmicks like mandatory workfare. All these actions together would form a solid response to the human emergency facing Michigan and the Nation as a whole.

I want to thank you for the opportunity, and I would be happy to answer any questions.

Chairman Ford. Thank you very much, Sister Agnes Mary. You mentioned in your testimony that an estimated figure of 3,500 fewer AFDC recipients would [illegible] on the welfare rolls if we had extended benefits under the Federal supplemental compensation program. About how many of those are not eligible? Do you have a figure for those that are not qualified for AFDC benefits because of the asset limitation?

You mentioned the figure of 3,500 who are receiving AFDC benefits. I would like to know whether or not we could have data to respond to those who are not eligible for any public assistance and those who have exhausted the benefits already.

Sister MANSOUR. I do not have an exact number but we do know that there are increases in soup kitchens, and we are currently doing an assessment in terms of shelter needs. We have increased, for example, almost 50 percent in emergency assistance, which again would help people cover rent, single emergencies for families, or for individuals in the State.

Currently, we are spending about $75 million to handle emergency necessities.

Chairman FORD. But what happens when you have to deny this emergency assistance? I mean, where do these families go? Are there increased costs to the State or Federal programs as a result of these people not being able to receive that assistance from the State?

Sister MANSOUR. I think simply put, what you do is create greater pressure, greater stress, increased hopelessness I think that directly and indirectly we increase suicides, we increase spouse abuse, child abuse. We really do not contribute to the general welfare of the population, and I think it is just a very difficult situation.

Chairman FORD. Is the crime rate up?

Sister MANSOUR. Crime rates are up, and that supposedly is one of the priorities of this administration.

I think we simply contribute to the general hopelessness of the population when you cannot address their needs, their basic needs and their emergency needs.

Chairman FORD. How have the cutbacks in services, especially at the time of the increased case loads, reduced the ability to prevent dependency, family dissolution, and institutionalization, et cetera? What is happening in that area, Sister Agnes Mary?

Sister MANSOUR. In the State of Michigan, we have decreased our assistance by about 50 percent. In other words, we have cut out $100 million over a 3-year period in support services; $100 million in 3 years for support services. These services are services such as day care which I consider to be extremely important, especially for single women who are trying to move themselves ahead in terms of social mobility and an opportunity to make a life for themselves and their children.

There is also increased the dependence of seniors who need some home assistance in order to be able to maintain a certain level of independence. Those funds are not as available in order to help them have that independence. There are less services to try to keep families together, and families that are at high risk, you find that spouse abuse and child abuse increase.

So when you are taking care of the basic needs you are thinking in terms of simply food and shelter and clothing, and you really do not, then, have the funds available to provide the necessary support services that get people living more independently and be more self-supporting.

Chairman FORD. Thank you, Sister Agnes Mary for your testimony and responses to the questions before the committee today.

Thank you very much for coming over and being with us and giving us your testimony.

The National Conference of State Legislatures, the Honorable Patrick Johnston, assemblyman from the State of California, we are delighted to have you with us today. We look forward to your testimony before the committee. Once again, we welcome you. I am a former member of the general assembly myself back in the State of Tennessee, and I am always delighted to have former colleagues come before the committee as State representatives.

STATEMENT OF PATRICK JOHNSTON, ASSEMBLYMAN, CALIFORNIA STATE ASSEMBLY, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. JOHNSTON. Thank you very much, Mr. Chairman. I first of all want to thank you and the members of the committee who were so cordial to invite me at the request of Congressman Matsui to address you in December on a particular problem we had, and I might just comment that your assistance, Mr. Chairman, and that of members of the California delegation, particularly Mr. Matsui, was instrumental in closing the gap and resolving our difference with the administration's view of our job training program regarding how much it should cost to collect this tax and what would be California's assessment. So we appreciate that effort.

I am here today on behalf of not only the legislature in California, but the National Conference of State Legislatures. My statement I think has been given to you and I will refrain from reading all of it. However, I do want to comment on portions of it and read some of it.

I am aware that you have before you today the need to extend the Federal supplemental compensation program. Both the California Legislature and the National Conference of State Legislatures urge you to extend that program, as literally millions of Americans have exhausted their unemployment insurance benefits and still are not able to find jobs.

One of the three major budget priorities of the NCSL is the protection and support of the unemployed through this deep recession. I want to extend to you the regret of Senate President Philip Rock of Illinois who had intended to address you today but was unable to. He pledges, as do I, that the NCSL in its upcoming April meeting will fully consider whatever recommendations you will have and whatever considerations are before the Congress with respect to improving the UI system.

I would like to comment, if I might, not so much on the solvency issue, which I understand is so crucial, but on a couple of aspects of the unemployment insurance compensation program as they affect California.

California has had in place since last year a system of short-term compensation designed to allow the unemployed to return to part time jobs while retaining a part of their benefits during their job search. While this may result in a minimal drain on unemployment insurance trust funds, the psychological effect of being at work combined with the ability to extend the time of the limited benefits have combined to make this a very successful program.

In other words, people are working part of the week, they are receiving some benefits, rather than simply not working at all and drawing a modest amount of benefits more than this would allow.

Last year the California Legislature created a job training program exclusively for unemployment insurance beneficiaries and other workers facing occupational displacement financed by a small surcharge on employer payroll taxes.

Our State has experienced high unemployment and plant closures as other States have. It is our objective to redirect some unemployment insurance resources to putting workers back to work instead of simply compensating them for their involuntary idleness, while also attempting to meet employers' needs for skilled workers.

The employment training fund is to operate through fixed fee performance contracts with employers, employer consortiums and eligible training agencies. Private sector jobs must be provided to all persons who successfully complete the training.

The program will train some 10,000 to 15,000 workers each year at an estimated cost of $2,000 to $4,000 per trainee. For example, agreement in principle has already been reached with Rockwell International to train unemployment insurance claimants who are, in fact, mostly farmworkers, Mr. Chairman. They will be trained for the space shuttle landing site at Vandenburg Air Force Base in California, thereby assisting a little bit the Federal budget by reducing the contractor's costs and providing jobs to those unemployed persons.

Based on the brief experience of passing this kind of legislation, I offer a few thoughts to the committee. One, training is not a cure all. Training does not create jobs directly. It helps to stimulate the economy only by provided skilled workers if and when business needs them. Training is most effective in a growing economy when there are shortages of skilled labor. It is frankly less useful in a depression when more trained people are out of work.

Two, the employment training fund is an economic development program that is part of California's strategy to restructure our economy. The program will reach only a fraction of the 2 million workers who either claimed unemployment insurance last year or who exhausted their benefits last year, but it can help businesses with the high up-front costs of training key workers in specialized skills.

Three, the unemployment insurance program is for laid-off workers. In our legislature last year efforts were made to substitute these moneys for general fund obligations to various public schools, or to expand the eligible persons for this program to new entrants into the work force, the young, or to those reentering the work force who had been out for family or other reasons for several years.

All such efforts were resisted. Unemployment insurance funds must benefit its traditional target population, those persons connected to the labor force, and not be siphoned off to other purposes.

Fourth and finally, a solvent unemployment insurance fund is a prerequisite to expanding to a job training program. And I know much of what the committee has heard today and much of what we understand to be the case, that many States are in a stressful situation, and I would not advise that they undertake this kind of expansion at this time. Our experience in the legislative debate was that if the fund is low or if solvency is at stake, business will fear higher taxes to pay for both benefits and training, and labor will fear less benefits to meet the new cost of training.

So, in fact, as we moved through our legislative process, at different points we had trouble keeping together, but finally we did reach agreement from both business and labor. Business asserts that they pay the money into the fund, and they do not want to have more people drawing on it. Labor asserts that the money belongs to the workers or the people laid off and does not want training to jeopardize those benefits; and they each have a case to make.

We try to account for those in a political sense and in a real sense. In a political sense, Mr. Chairman, we were able to limit and in fact freeze the employer contribution rate for this year, which was attractive to the business community. At the same time we were fortunate enough to be able to increase the maximum benefits so that the worker community, represented by organized labor primarily, was pleased with that. And ultimately both then signed on and were very active in promoting the third component which was job training, but directed only for those persons who are laid off, attached to the work force, and only in industries that had a long range potential to keep those people employed.

Thank you for your interest, Mr. Chairman. I appreciate the time to speak before you today.

Chairman FORD. What happens with the exhaustees in your State of California that have used whatever the maximum amount of weeks is up to 55 weeks? What happens there with the job training?

We have talked about it today with the administration. I do not know whether you were here earlier. We were talking about maybe a voucher plan. What about California?

Mr. JOHNSTON. With respect to this particular training program, exhaustees who have been receiving benefits within the last 52 weeks would still be eligible for training assistance under this legislation.

Chairman FORD. Not tied directly to the overall unemployment plan, is that what you are saying?

Mr. JOHNSTON. What I am saying is if individuals have exhausted their benefits within the last year, they would still qualify to be trained under the provisions of this bill. But the voucher plan really is something completely separate.

Chairman FORD. Separate from it, but I was just concerned about those in California. You mentioned your State several times. What has happened to those who have exhausted all of their benefits up until this point?

Mr. JOHNSTON. I am afraid that many of them——

Chairman FORD. Of those who will be exhausting very soon.

Mr. JOHNSTON. We have a lot of individual stories of tragedy in my district and up and down the State because they then have to turn to welfare as best they can. In many cases there may be a second wage earner but making substantially less than the primary wage earner; and consequently the fallout from that in terms of family disruption and loss of income is substantial. We have not cured that by any means by this program, Mr. Chairman.

Chairman FORD. Thank you very much. We really appreciate it. Mr. Matsui called me earlier. I thought he was coming over. He was in another session. He indicated that he wanted to be here. I think that we moved quicker than he had anticipated because we worked through the lunch hour. He is in one of his other subcommittee sessions at this time. He wanted to be here, and he wanted me to convey that to you.

Mr. JOHNSTON. His assistance has been enormous through our whole process of dealing with the Federal Government on this program. He is a good friend and a good supporter.

[The prepared statement follows:]

STATEMENT OF

ASSEMBLYMAN PATRICK JOHNSTON
OF THE CALIFORNIA LEGISLATURE

ON BEHALF OF THE
NATIONAL CONFERENCE OF STATE LEGISLATURES

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE - -

THANK YOU FOR THIS OPPORTUNITY TO ADDRESS YOU TODAY - - TO DESCRIBE WHAT I FEEL AND WHAT THE NATIONAL CONFERENCE OF STATE LEGISLATURES FEELS - - IS AN IMPORTANT EXPERIMENT LINKING JOB TRAINING WITH THE UNEMPLOYMENT INSURANCE PROGRAM.

MY NAME IS PATRICK JOHNSTON. I SERVE AS A MEMBER OF THE CALIFORNIA HOUSE OF DELEGATES. DURING OUR LAST SESSION, I SPONSORED LEGISLATION WHICH WAS ADOPTED AND WHICH ESTABLISHED A TRAINING PROGRAM WHICH BEGAN THIS PAST JANUARY 1ST.

LAST DECEMBER I CAME BEFORE THIS COMMITTEE AT THE REQUEST OF CONGRESSMAN MATSUI TO REQUEST YOUR ASSISTANCE IN LAUNCHING THAT JOB TRAINING PROGRAM FINANCED BY THE ASSIGNMENT OF 0.1% OF THE REVENUES GENERATED BY THE STATE UNEMPLOYMENT INSURANCE TAX.

THROUGH THE EFFORTS OF CHAIRMAN FORD, MR. MATSUI AND OTHERS IN THE CALIFORNIA CONGRESSIONAL DELEGATION, THE OFFICE OF MANAGEMENT AND BUDGET AND THE DEPARTMENT OF LABOR HAVE REOPENED NEGOTIATIONS WITH CALIFORNIA OVER THEIR EARLIER PROPOSAL TO CHARGE US $10 MILLION TO COLLECT THIS $55 MILLION. IT IS NOW VERY LIKELY THAT THE COLLECTION COSTS WILL BE LESS THAN $2 MILLION.

I THANK YOU, MR. CHAIRMAN, AND MEMBERS OF THIS COMMITTEE FOR YOUR HELP.

LET ME PAUSE FOR A MOMENT TO ADDRESS THE BROADER QUESTION OF THE ENTIRE UNEMPLOYMENT INSURANCE PROGRAM. I AM AWARE THAT YOU HAVE BEFORE YOU TODAY THE NEED TO EXTEND THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM. BOTH THE CALIFORNIA LEGISLATURE AND THE NATIONAL CONFERENCE OF STATE LEGISLATURES URGE YOU TO EXTEND THAT PROGRAM AS LITERALLY MILLIONS OF AMERICANS HAVE EXHAUSTED THEIR UNEMPLOYMENT INSURANCE BENEFITS AND STILL ARE NOT ABLE TO FIND JOBS. ONE OF THE THREE MAJOR BUDGET PRIORITIES OF THE NCSL IS THE PROTECTION AND SUPPORT OF THE UNEMPLOYED THROUGH THIS DEEP RECESSION.

I HAVE BEEN ASKED TO EXTEND TO YOU THE REGRET OF SENATE PRESIDENT PHILIP ROCK OF ILLINOIS WHO HAD INTENDED TO ADDRESS YOU TODAY ON THE ISSUE OF THE SOLVENCY OF THE UNEMPLOYMENT INSURANCE SYSTEM. AS CHAIRMAN OF NCSL'S STATE-FEDERAL ASSEMBLY, SENATOR ROCK WILL BE FORWARDING TESTIMONY TO YOU ON THAT TOPIC, AND HE HAS ASKED THAT THE NCSL ANALYZE THE PROPOSALS WHICH DEVELOP IN THE CONGRESS SO THAT AT THE APRIL MEETING, NCSL MAY TAKE A POSITION ON IMPROVING THE SYSTEM.

CURRENTLY, THE NCSL POLICY ASKS THAT STATES WHOSE UNEMPLOYMENT RATE IS ABOVE 110% OF THE NATIONAL AVERAGE UNEMPLOYMENT RATE BE PROTECTED FROM BOTH INTEREST CHARGES ON LOANS, AND FROM FURTHER PENALTY TAX INCREASES. ONLY WITH THESE PROTECTIONS CAN A STATE KEEP ALIVE THE HOPE OF SOLVENCY IN THE NEAR FUTURE. IT IS UNFORTUNATE THAT WHAT HAD APPEARED TO BE A COMPROMISE IN THE 1981 RECONCILIATION ACT TURNED INTO A DOUBLE PENALTY ON MANY STATES WITH ALREADY WEAK FISCAL RESOURCES.

MY STATE OF CALIFORNIA IS FORTUNATE IN THAT THE RECESSION OF 1973-75 DID NOT CAUSE UNEMPLOYMENT TO STAY AT THE HIGH LEVELS EXPERIENCED IN SOME REGIONS OF THE COUNTRY. WE ARE ALSO OPTIMISTIC THAT CALIFORNIA'S RECOVERY FROM THE CURRENT RECESSION WILL BE AS RAPID AS THAT OF ANY OTHER STATE, THUS KEEPING OUR TRUST FUND IN A RELATIVELY STRONG POSITION VERSUS OTHER STATES.

BUT PRECISELY BECAUSE OF THAT RESERVE, CALIFORNIA HAS BEEN ABLE TO TAKE STEPS TO MAKE ITS SERVICES FOR THE UNEMPLOYED EXEMPLARY, AND WE FEEL THAT OTHER STATES, ONCE SOLVENCY FOR THE SYSTEM ITSELF IS RESTORED -- AND IT IS MY BELIEF THAT THE FEDERAL TRUST FUND IS ITSELF STILL IN DEBT FROM THE PAYMENT OF EXTENDED BENEFITS IN THE PAST -- CAN BENEFIT FROM THE EXPERIMENTS WE HAVE ESTABLISHED.

LET ME TURN NOW TO OUR STATE ACTIONS, NOT DISMISSING THE SOLVENCY ISSUE, BUT PROMISING YOU A STATEMENT WITHIN THE NEXT TEN DAYS, AND PROMISING YOU THE STAFF SUPPORT OF THE NCSL IN DEVELOPING LEGISLATION NEEDED TO RESTORE STABILITY AND EQUITY TO THE SYSTEM.

CALIFORNIA HAS HAD IN PLACE SINCE LAST YEAR A SYSTEM OF SHORT TERM COMPENSATION, DESIGNED TO ALLOW THE UNEMPLOYED TO RETURN TO PART-TIME JOBS WHILE RETAINING A PART OF THEIR BENEFITS DURING THEIR JOB SEARCH. WHILE THIS MAY RESULT IN A MINIMAL DRAIN ON UNEMPLOYMENT INSURANCE TRUST FUNDS, THE PSYCHOLOGICAL EFFECT OF BEING AT WORK COMBINED WITH THE ABILITY TO EXTEND THE TIME OF THE LIMITED BENEFITS HAVE COMBINED TO MAKE THIS A VERY SUCCESSFUL PROGRAM.

DURING OUR LAST LEGISLATIVE SESSION, I SPONSORED LEGISLATION WHICH ESTABLISHED A JOB TRAINING COMPONENT TO OUR STATE UNEMPLOYMENT INSURANCE PROGRAM. IT IS MY BELIEF THAT LESSONS LEARNED ALONG THE WAY CAN BE HELPFUL TO YOU AS YOU SEEK TO IMPROVE THE UNEMPLOYMENT INSURANCE SYSTEM NATIONALLY, AND AS YOU ATTEMPT TO ALLOW FOR THE MOST EFFECTIVE RELATIONSHIP BETWEEN BENEFITS FOR THE UNEMPLOYED -- WHICH MUST BE PAID FOR BY WORKERS AND BUSINESSES EVEN THROUGH YOUR GENERAL REVENUES -- AND RETRAINING PROGRAMS, WHICH CAN BE OF BENEFIT TO BOTH WORKERS AND EMPLOYERS.

LAST YEAR THE CALIFORNIA LEGISLATURE CREATED A JOB TRAINING PROGRAM EXCLUSIVELY FOR UNEMPLOYMENT INSURANCE BENEFICIARIES AND OTHER WORKERS FACING OCCUPATIONAL DISPLACEMENT FINANCED BY A SMALL PORTION OF EMPLOYER PAYROLL TAXES.

OUR STATE HAS EXPERIENCED HIGH UNEMPLOYMENT AND PLANT CLOSURES AS OTHER STATES HAVE. IT IS OUR OBJECTIVE TO REDIRECT SOME UNEMPLOYMENT INSURANCE RESOURCES TO PUTTING WORKERS BACK TO WORK INSTEAD OF SIMPLY COMPENSATING THEM FOR THEIR INVOLUNTARY IDLENESS WHILE ALSO MEETING EMPLOYERS' NEEDS FOR SKILLED WORKERS.

THE EMPLOYMENT TRAINING FUND IS TO OPERATE THROUGH FIXED FEE PERFORMANCE CONTRACTS WITH EMPLOYERS, EMPLOYER CONSORTIUMS OR ELIGIBLE TRAINING AGENCIES. PRIVATE SECTOR JOBS MUST BE PROVIDED TO ALL PERSONS WHO SUCCESSFULLY COMPLETE THE TRAINING.

THE PROGRAM WILL TRAIN 10,000 TO 15,000 WORKERS EACH YEAR AT AN ESTIMATED COST OF $2,000 TO $4,000 PER TRAINEE. FOR EXAMPLE, AGREEMENT IN PRINCIPLE HAS BEEN REACHED WITH ROCKWELL INTERNATIONAL TO TRAIN UNEMPLOYMENT INSURANCE CLAIMANTS FOR THE SPACE SHUTTLE LANDING SITE AT VANDENBERG AIR FORCE BASE THEREBY ASSISTING A BIT THE FEDERAL BUDGET BY REDUCING THE CONTRACTOR'S COSTS AND PROVIDING JOBS TO THE UNEMPLOYED.

BASED ON THE BRIEF EXPERIENCE OF PASSING THIS KIND OF LEGISLATION, I OFFER A FEW THOUGHTS:

1) TRAINING IS NOT A CURE-ALL. TRAINING DOES NOT CREATE JOBS DIRECTLY. IT HELPS TO STIMULATE THE ECONOMY ONLY BY PROVIDING SKILLED WORKERS IF AND WHEN BUSINESS NEEDS THEM. TRAINING IS MOST EFFECTIVE IN A GROWING ECONOMY WHEN THERE ARE SHORTAGES OF SKILLED LABOR; IT IS LESS USEFUL IN A DEPRESSION WHEN MORE TRAINED PEOPLE ARE OUT OF WORK.

2. THE EMPLOYMENT TRAINING FUND IS AN ECONOMIC DEVELOPMENT PROGRAM THAT IS PART OF CALIFORNIA'S STRATEGY TO RESTRUCTURE ITS ECONOMY. THE PROGRAM WILL REACH ONLY A FRACTION OF THE TWO MILLION WORKERS WHO CLAIMED UNEMPLOYMENT INSURANCE OR EXHAUSTED THEIR BENEFITS LAST YEAR. BUT IT CAN HELP BUSINESSES WITH THE HIGH UP-FRONT COSTS OF TRAINING KEY WORKERS IN SPECIALIZED SKILLS.

3. THE UNEMPLOYMENT INSURANCE PROGRAM IS FOR LAID-OFF WORKERS. IN OUR LEGISLATURE EFFORTS WERE MADE TO SUBSTITUTE THESE MONIES FOR GENERAL FUND OBLIGATIONS TO VARIOUS PUBLIC SCHOOLS OR TO EXPAND THE ELIGIBLE PERSONS TO THE NEW ENTRANTS INTO THE WORKFORCE OR THOSE REENTERING IT. ALL SUCH EFFORTS WERE RESISTED. UNEMPLOYMENT INSURANCE FUNDS MUST BENEFIT ITS TRADITIONAL TARGET POPULATION AND NOT BE SIPHONED OFF TO OTHER PURPOSES.

4. FINALLY, A SOLVENT UNEMPLOYMENT INSURANCE FUND IS A PREREQUISITE TO EXPANDING TO A JOB TRAINING PROGRAM. OTHERWISE BUSINESS WILL FEAR HIGHER TAXES TO PAY FOR BENEFITS AND TRAINING AND LABOR WILL FEAR LESS BENEFITS TO MEET THE NEW COST OF TRAINING.

THANK YOU FOR YOUR INTEREST.

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Earl S. Mackey

STATE LOANS FOR UNEMPLOYMENT INSURANCE

Policy Adopted December 1981

The Unemployment Insurance Program is intended to support unemployed workers through a tax on employee wages and employer salary levels. At the state and federal level, the program is still in debt for costs incurred during the 1974-1977 recession ($6 billion state loans, $4 billion federal loan from general revenues). NCSL has long called for forgiveness of state U.I. loans generated during this recession.

The economy of this country is once again in a recession with rates of unemployment reaching levels last seen in 1975. Unemployment is experienced unevenly through sectors of the economy and geographic regions of the country, causing disincentives to needed economic development in high unemployment areas. The U.I. loan program, which has served as a safety valve for distressed areas, has been amended to require the payment of interest.

NCSL seeks amendments to current federal statutes to exempt states experiencing high unemployment rates from the interest requirement and penalty requirements until their unemployment rate is within 110 percent of the national average. Such states are encouraged to tighten their program eligibility standards.

Chairman Ford. Mr. Representative, we want to thank you very much for coming on behalf of the national conference as well as on behalf of the State of California.

Thank you very much.

The committee will now recognize Mr. Bert Seidman, director of the department of social security with the AFL-CIO, along with Mr. Robert McGlotten, the associate director of the department of legislation.

I have a Mr. P. K. Seidman with Seidman & Seidman CPA firm. I am sure you are familiar with the CPA firm. He happens to be one of my constituents and also one of my political advisers back home, and I am in constant contact with him all the time, and the spelling of the name is the same. So that is why sometimes I might pronounce it different ways.

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY ROBERT M. McGLOTTEN, ASSOCIATE DIRECTOR, DEPARTMENT OF LEGISLATION

Mr. Seidman. Thank you, Mr. Chairman.

My name is Bert Seidman. I am director of the department of social security of the AFL-CIO, and with me is Robert McGlotten, associate director of the department of legislation.

I have a detailed statement, and I respectfully request that it be included in the record of the hearing, and I will go on to summarize it.

Chairman Ford. Mr. Seidman, it will be made a part of the record, sir.

Mr. Seidman. Thank you.

We appreciate this opportunity to present to this subcommittee the views of the AFL-CIO on the urgent need for extension of the Federal supplemental benefits program, as well as other unemployment compensation issues.

For January the Bureau of Labor Statistics reported that 11.4 million workers were without jobs, with 10.4 percent of the labor force officially counted as unemployed. The apparent drop of 600,000 in January in the official unemployment figure was not real, since it is exactly balanced by the 600,000 discouraged workers who dropped out of the labor force; 2.7 million workers have been without work for more than 6 months. The average duration of unemployment jumped in only 1 month from 18 to 19.4 weeks. Less than 50 percent of those officially counted as unemployed are receiving unemployment compensation benefits. Over 4.7 million workers exhausted their regular and extended benefits in fiscal year 1982.

All economic forecasts, including those of this administration, project unemployment levels of over 10 percent for the remainder of this year and close to 10 percent in 1984. Workers who lose their jobs face a long and painful spell without work and the prospect of losing their unemployment benefits long before they find employment.

The temporary Federal supplemental benefits program, effective September 12, 1982, has provided some income protection for hundreds of thousands of long-term jobless workers, but additional steps must be taken immediately to prevent millions of long-term jobless workers and their families from being deprived of all income.

More and more workers are exhausting their regular and extended benefits, and therefore need the income protection provided by Federal supplemental benefits. Unless this program is extended beyond its current March 31, 1983 expiration date, benefits will cease immediately even though many will not have received the maximum number of weeks to which they are entitled.

To prevent dire suffering for millions of long-term jobless workers and their families, the AFL-CIO urges Congress to extend the current program of Federal supplemental benefits for at least 1 year beyond its current expiration date.

A simple extension, however, is not enough. The income protection provided by the program is inequitable in that unemployed workers are receiving benefits of varying duration depending on where they happen to work or live.

A Federal program of unemployment compensation benefits financed from general revenues must protect unemployed workers equally. This objective cannot be accomplished by relating benefit duration to State insured unemployment rates which have always had serious defects.

The AFL-CIO has long advocated the establishment of a permanent supplemental benefit program which would provide benefits for up to at least 65 weeks in all phases of the business cycle for the long-term unemployed. We urge you to enact legislation that would provide at least 26 weeks of Federal supplemental benefits in addition to the current 39 week maximum provided under the regular and extended benefits program.

We strongly urge that additional weeks of benefits be assured without regard to State trigger levels. They should be funded by general revenues. The House Budget Committee staff estimates that November 1982, the most recent month for which data are available, over a third of a million unemployed workers exhausted Federal supplemental benefits. No doubt, hundreds of thousands more long-term jobless workers have exhausted these benefits since November.

Unless the AFL-CIO proposal of 65 weeks is adopted, these workers will receive no aid whatsoever. That is why the added 26 weeks is so important.

The AFL-CIO is strongly opposed to the imposition of additional requirements that further restrict the availability of Federal supplemental benefits for long-term jobless workers. Unemployed workers are already required to have 20 weeks of qualifying employment or its equivalent in order to be eligible for extended and Federal supplemental benefits. Those who do qualify for these benefits despite this onerous requirement are then forced to accept jobs paying wages equal to their weekly benefit or the minimum wage, whichever is higher.

In addition to these punitive requirements, the Reagan administration now proposes to require unemployed workers to have 30 weeks of qualifying employment in order to be eligible for Federal supplemental benefits. This would result in denial of benefits to hundreds of thousands of long-term unemployed workers.

Under proposals made by the administration and others, unemployed workers entitled to Federal supplemental benefits would be given the option of receiving up to 16 weeks of benefits or receiving vouchers equivalent to the amount of benefits to subsidize employers who hire them. These proposals are flawed in their assumptions, are ill conceived and will not result in job creation.

Employers could simply lay off their current workers, substitute workers holding vouchers, and retain these new workers only until the voucher expires. Displacing workers who already have jobs in order to provide temporary employment for long-term jobless workers does not lessen unemployment or the suffering it causes.

Other proposals of the administration would allow lump-sum payments of Federal supplemental benefits but only for relocation and/or training and impose a job or a training requirement as a condition for receiving Federal supplemental benefits.

Unemployed workers should not have to use their unemployment compensation benefits for relocation and training which ought to be available to them without such undue sacrifice. The imposition of a training requirement on all recipients of Federal supplemental benefits, regardless of the availability of suitable jobs, is punitive and unnecessary. Unemployed workers, however, should be allowed and encouraged to choose training for which there is a reasonable expectation of a job, including training for highly skilled jobs of longer duration.

We strongly oppose the administration's proposal to misuse State unemployment insurance trust funds by allowing the States to use these funds for training and relocation assistance. These trust funds must be used exclusively for their intended purpose; the payment of unemployment compensation benefits to jobless workers.

With respect to financing, the near depression levels of unemployment are severely straining the Nation's unemployment compensation system. Because State reserve funds have been maintained at inadequate levels, States are borrowing from the Federal unemployment account in order to meet benefit obligations. Several of these States remain in debt for loans during previous recessions, and as a result of requirements recently imposed by Congress must pay interest on those loans. Twenty-nine States will have outstanding loans from the Federal unemployment account by the end of April 1983.

To deal equitably with the financial problems of the States and to enable maintenance of current benefit provisions, or wherever possible the improvement of benefits, the AFL-CIO urges Congress to enact legislation that would reimburse all States from general revenues for their share of extended benefits and the excess cost of regular benefits during this recession as well as the recession of 1975 to 1978; require States to repay loans only when State reserve funds reach 1¼ times the previous year's benefit payments, thus deferring loan repayments during periods of high unemployment and recession; assist States to meet extraordinary costs during periods of high national or State unemployment through a system of reinsurance as the National Commission on Unemployment Compensation recommended; defer the interest on loans and penalties for failure to repay loans until States are able to rebuild their trust funds up to the level we have indicated; that is, 1¼ times the previous year's benefit payments.

In conclusion, Mr. Chairman, adequate and effective unemployment insurance protection for jobless workers is needed today more than ever before. It must be extended and strengthened, not weakened as the administration has proposed. And its financing must be shored up at both Federal and State levels.

The AFL-CIO stands ready to work with this subcommittee and the Congress to assure that unemployment insurance remains through these most difficult times an effective bulwark against deprivation and suffering for all jobless workers and their families.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

We appreciate this opportunity to present to this Subcommittee the views of the AFL-CIO on the urgent need for extension of the federal supplemental benefits program and other unemployment compensation issues which are of concern to us and this Subcommittee.

Not since the Great Depression of the 1930's have so many workers been without jobs. The economic policies of the Reagan Administration have resulted in economic disaster for unemployed workers. Millions of jobs have been wiped out since the Reagan recession began. Thus, the search for a job for many if not most unemployed workers is a fruitless effort.

For January, the Bureau of Labor Statistics reported that 11.4 million workers were without jobs with 10.4 percent of the labor force officially counted as unemployed. The apparent drop of 600,000 in January in the official unemployment figure was not real since it is exactly balanced by the 600,000 discouraged workers who dropped out of the labor force. Forty percent of these jobless workers had been unemployed for 15 weeks or longer. Of these, 2.7 million workers had been without work for more than 6 months. The average duration of unemployment jumped from 18 weeks in December 1982 to 19.4 weeks in January 1983. In January 1982, the average duration of unemployment was 13 weeks. An additional 8.6 million workers either were too discouraged even to search for work or had accepted part-time employment because they were unable to find full-time jobs. Thus, at a minimum, 20 million American workers and their families are experiencing severe hardship and economic deprivation.

The protections of an adequate and equitable unemployment insurance system are essential for these unemployed workers and their families. Yet, of the 11.4 million workers officially counted as unemployed, only 5.3 million, or 46 percent, are receiving unemployment compensation benefits. Over 4.7 million workers exhausted their regular and extended benefits in fiscal year 1982. Millions of long-term workers are not even eligible for extended benefits as the result of the harsh restrictions on the extended benefit program enacted by Congress in 1980 and 1981. All economic forecasts, including those of this Administration, project unemployment levels of over 10 percent for the remainder of this year and close to 10 percent in 1984. Workers who lose their jobs face a long and painful spell without work and the prospect of losing their unemployment benefits long before they find employment.

The temporary program of federal supplemental benefits which became effective September 12, 1982 has provided some income protection for hundreds of thousands of long-term jobless workers. With the extension of weeks under the provisions of the Surface Transportation Assistance Act of 1983, unemployed workers who have exhausted either regular or extended benefits are eligible for 8, 10, 12, 14 or 16 weeks of federal supplemental benefits, depending on the state from which they are receiving benefits. Thus, it is possible for some unemployed workers to receive 55 weeks of benefits if both extended benefits and 16 weeks of federal supplemental benefits are available in their states. The maximum duration of benefits in states where only 8 weeks of federal supplemental benefits are available, however, is only 34 weeks.

While establishment of the program of federal supplemental benefits was a much needed step in the right direction, additional steps must be taken immediately to prevent millions of long-term jobless workers and their families from being deprived of all income. As this recession and accompanying high rates of unemployment continue, more and more workers are exhausting their regular and extended benefits and, therefore, need the income protection provided by federal supplemental benefits. Unless this program is extended beyond its current March 31, 1983 expiration date, benefits will cease immediately even though many will not have received the maximum number of weeks to which they are entitled. Unemployed workers who would qualify after that date will receive no benefits at all. To prevent dire suffering of millions of long-term jobless workers and their families, the AFL-CIO urges Congress to extend the current program of federal supplemental benefits for at least one year beyond its current expiration date.

A simple extension, however, is not enough. The income protection provided by the program is inequitable in that unemployed workers are receiving benefits of varying duration, depending upon where they happen to work or live. A federal program of unemployment compensation benefits, financed from general revenues, must protect unemployed workers equally. This objective cannot be accomplished by relating benefit duration to state insured unemployment rates which always have had serious defects.

The AFL-CIO has long advocated the establishment of a permanent supplemental benefit program which would provide benefits for up to at least 65 weeks in all phases of the business cycle for the long-term unemployed. We urge you to enact legislation that would provide at least 26 weeks of federal supplemental benefits in addition to the current 39 week maximum provided under the regular and extended benefits program. We strongly urge that additional weeks of benefits be assured without regard to state trigger levels. They should be funded by general revenues. The House Budget Committee staff estimates that in November 1982, the most recent month for which data are available, over a third of a million unemployed workers exhausted federal supplemental benefits. No doubt, hundreds of thousands more long-term jobless workers have exhausted these benefits since November. Unless the AFL-CIO proposal of 65 weeks is adopted, these workers will receive no aid whatsoever. That is why the added 26 weeks is so important.

The AFL-CIO is strongly opposed to the imposition of additional requirements that further restrict the availability of federal supplemental benefits for long-term jobless workers. Unemployed workers are already required to have 20 weeks of qualifying employment, or its equivalent, in order to be eligible for extended and federal supplemental benefits. Those who do qualify for these benefits despite this onerous requirement are then forced to accept jobs paying wages equal to their weekly benefit, or the minimum wage, whichever is higher. In addition to these punitive requirements, the Reagan Administration now proposes to require unemployed workers to have 30 weeks of qualifying employment in order to be eligible for federal supplemental benefits. The 20 weeks of work requirement under present law is itself unnecessary and unfair and more than sufficient to demonstrate long-term attachment to the labor force. Adding an additional 10 weeks to a requirement that is already restrictive will result in denial of benefits to hundreds of thousands of long-term unemployed workers.

For over 40 years, unemployment insurance has ameliorated the impact of joblessness for workers who are unemployed through no fault of their own. In recent years, however, we have been confronted with unprecedented attacks on the unemployment compensation system which is already far from adequate. These attacks are continuing under the guise of providing jobs for unemployed workers. Under proposals made by the Administration and others, unemployed workers entitled to federal supplemental benefits would be given the option of receiving up to 16 weeks of benefits or receiving vouchers, equivalent to the amount of benefits, to subsidize employers who hire them. These proposals are flawed in their assumptions, are ill-conceived and will not result in job creation. Employers could simply lay off their current workers, substitute workers holding vouchers and retain these new workers only until the voucher expires. Displacing workers who already have jobs in order to provide temporary employment for long-term jobless workers does not lessen unemployment or the suffering it causes. In addition, the amount of benefits available to unemployed workers under the unemployment insurance program is very low. The average weekly benefit paid in the country is only $106, and in 28 states even lower. Thus, some employers would hire long-term jobless workers only for low-skilled, low-paying jobs regardless of their skills or previous work experience.

Other proposals would allow lump-sum payments of federal supplemental benefits but only for relocation and/or training and impose a job or training requirement as a condition for receiving federal supplemental benefits. Unemployed workers should not have to use their unemployment compensation benefits for relocation and training which ought to be available to them without such undue sacrifice. As we stated before, these benefits are woefully inadequate and must be used to provide for basic needs.

The imposition of a training requirement on all recipients of federal supplemental benefits regardless of the availability of suitable jobs is punitive and unnecessary. Unemployed workers, however, should be allowed and encouraged to choose training for which there is a reasonable expectation of a job. The Federal Unemployment Tax Act (FUTA) requires that unemployment compensation benefits not be denied to those attending a training course with the approval of the state employment security agency. Approved training is limited in most states to vocational or basic education training. This should be expanded to include training for highly skilled jobs of longer duration.

We strongly oppose the Administration's proposal to misuse state unemployment insurance trust funds by allowing the states to use these funds for training and relocation assistance. These trust funds must be used exclusively for their intended purpose, the payment of unemployment compensation benefits to jobless workers.

The AFL-CIO has for many years urged the establishment of a comprehensive program of job counseling, vocational guidance, voluntary relocation assistance and job placement in coordination with a permanent program of at least 65 weeks of federal supplemental benefits. Such a program would be entirely voluntary. However, until prosperity is restored and the economic recovery long promised by the Reagan Administration is reality, many unemployed workers will find that their efforts to become employed again are futile.

Financing

The near-depression levels of unemployment are severely straining the nation's unemployment compensation system. Because state reserve funds have been maintained at inadequate levels, states are borrowing from the Federal Unemployment Account in order to meet benefit obligations. Several of these states remain in debt for loans during previous recessions and, as the result of requirements recently imposed by Congress, must pay interest on those loans.

As many as 29 states will have outstanding loans from the Federal Unemployment Account by the end of April 1983. This bleak financial situation has brought improvements in state unemployment compensation laws to a grinding halt. Many states are even imposing their own harsh restrictions on top of those which have been federally established.

Massive unemployment during economic recession is a national problem which must be met with the financial resources of the federal government. To deal equitably with the financial problems of the states and to enable maintenance of current benefit provisions or, wherever possible, the improvement of benefits, the AFL-CIO urges Congress to enact legislation that would:

- reimburse all states from general revenues for their share of extended benefits and the excess cost of regular benefits during this recession as well as the recession of 1975 - 1978.
- require states to repay loans only when state reserve funds reach one and one-quarter times the previous year's benefit payments, thus deferring loan repayments during periods of high unemployment and recession.
- assist states to meet extraordinary costs during periods of high national or state unemployment through a system of reinsurance as the National Commission on Unemployment Compensation recommended.

States must have flexibility in repaying loans during periods of recession and high unemployment. Otherwise unemployed workers will be forced to bear the costs of the unemployment insurance through cutbacks in unemployment compensation benefits. The AFL-CIO, therefore, urges Congress to defer the interest on loans and penalties for failure to repay loans until states are able to rebuild their trust funds up to the level we have indicated.

Conclusion

Mr. Chairman, adequate and effective unemployment insurance protection for jobless workers is needed today more than ever before. It must be extended and strengthened, not weakened as the Administration has proposed; and its financing must be shored up at both federal and state levels. The AFL-CIO stands ready to work with this Subcommittee and the Congress to assure that unemployment insurance remains through these most difficult times an effective bulwark against deprivation and suffering for all jobless workers and their families.

Chairman **Ford**. Thank you.

Mr. Seidman, you said a simple extension, however, is not enough, and you went on to say that the income protection provided under the program is inequitable. We are talking about 65 weeks. Right now I guess the total number of weeks one is eligible for would be 55 weeks, if I am not mistaken, so you are advocating an additional 10 weeks—not only the extension of the Federal supplemental compensation program but an additional 10 weeks.

Mr. **Seidman**. It is 10 weeks for those who qualify for 55 weeks. It would be more weeks for those who did not qualify.

Chairman **Ford**. That is correct. But using the maximum amount of 55, in other words, we would be extending it for an additional 10 weeks for the unemployment compensation, is that correct?

Mr. **Seidman**. At least 10 weeks.

Chairman **Ford**. Yes. I am using the maximum number of 55 weeks. We would carry that to 65 weeks, is that correct?

Mr. **Seidman**. Frankly, Mr. Chairman, we are very skeptical. This is not the recession of the middle seventies. This is a much worse recession. These are in many parts of the country depression conditions, and at the very minimum 65 weeks are needed. We think in many areas even with 65 weeks many workers will exhaust their benefits.

Chairman **Ford**. Do we have the cost of that additional 10 weeks—not 10 weeks but carrying it from the present scale of 55 to 65? Do you have any figures on that and the cost involved in that?

Mr. **Seidman**. Frankly, Mr. Chairman, we are not very fortunate during this administration in getting the kinds of figures from the Labor Department that we used to be able to get very readily.

Chairman **Ford**. We will make the request from the Labor Department to get those figures.

Now, you mentioned the voucher plan here. You heard the administration earlier today talking about the voucher program.

Mr. **Seidman**. Unfortunately, I was not present, but I am familiar with it.

Chairman **Ford**. And you are opposed to it?

Mr. **Seidman**. We are strongly opposed to the voucher plan. In the first place, no voucher plan that we know anything about has really ever done very much in the way of producing jobs. But to the extent that it does, it could displace regular workers, it would provide no guarantee of decent or long-term employment for those who could conceivably get jobs as a result of such a voucher. And furthermore, we see no reason to subsidize employers in this fashion. It gives them a competitive advantage over other employers in a very irrational way.

Mr. **McGlotten**. But in addition to that also, Mr. Chairman, the fact is that only 49 percent of the individuals who are unemployed right now are receiving unemployment benefits, so you are talking about 50 percent of the unemployed who are out there who would not have a voucher a very discriminatory system that is about to be thrust upon the whole entire system.

Chairman **Ford**. What happens if the Congress reported a bill out extending the FSC but not extending the weeks of benefits, but would be willing to place those exhaustees who have already terminated off the unemployment rolls.

Would it be that you would look at a voucher plan for those who have exceeded not exceeded but have gone all the way up to the 55 weeks?

Mr. McGLOTTEN. Mr. Chairman, in our judgment why pay an employer tax dollars for something that he or she would do, and that is, to hire an individual? If you want to use money, why not retrain workers if there are jobs available or either have a jobs program of the magnitude of public service employment in cities which are experiencing great difficulty in trying to meet service needs?

Why not spend the money to do that rather than giving the individual exhaustee a voucher to run around to private employers?

Chairman FORD. The word "voucher" just might be the wrong concept or the wrong thing to use, the wrong word to use.

Mr. SEIDMAN. We do not care what word you use.

Chairman FORD. Not us. The administration has proposed it. We are talking about the committee trying to identify some way to get the administration's attention to give strong support for some legislation coming out of this Congress to respond to those who have already exhausted the benefits, and to respond to those who are unemployed and would like to have a job and to work. And I know that labor is committed to that.

I am asking as the chairman of the committee, maybe not today, but I would like to have labor, AFL-CIO, look at this area to see what we can come up with.

Mr. SEIDMAN. Mr. Chairman, with all due respect, we have looked at the experience with these voucher programs over the years. Not so many years ago, Senator Talmadge introduced a program which he thought would result in the hiring of large numbers of people on AFDC. It was a voucher program, essentially, a subsidy program. An employer received a subsidy for hiring people off AFDC. There were very, very, very few people who were hired as a result of that. Very, very few employers took advantage of it because those employers did not want those people, did not want to hire those people.

We see no reason whatsoever to think that this program would make any dent whatsoever in the need for these jobs on the part of millions and millions of unemployed workers in America. We think this would be the wrong way to go. We think that first and foremost, the Congress should be doing what it is apparently considering doing, and that is having a jobs program to hire large numbers, we would hope 1 million or more, of jobless workers doing the kinds of work that America needs. And there is a great deal of work that could be done.

But to the extent that that does not meet the problem, we think it is terribly urgent not only to extend the duration of the program, but also, to extend the duration of benefits.

Chairman FORD. Even with that extension, I think you or at least I know you all are and I want to express the feelings of the Chair. You know, I am, too, concerned about those who have exhausted their unemployment compensation benefits and those who will be exhausting those benefits. But even extending it for an additional

10 weeks, 12, 14, 16 weeks in some cases, at some point, 10 weeks out, they would have still exhuasted their benefits. And I am concerned about placing that group of unemployed persons in this country back on the job.

And I notice that you said in your statement here employers could simply lay off their current workers and substitute workers holding vouchers. If all the safeguards were built into the legislation to protect those employees from being threatened or intimidated with the loss of their job because of the voucher plan being there——

Mr. **Seidman**. Who would police that kind of a program, Mr. Chairman?

Chairman **Ford**. Well, I am not sure whether the legislation couldn't be written——

Mr. **Seidman**. This Labor Department? Would you rely on the Secretary of Labor to police that kind of a program?

Chairman **Ford**. It would be difficult, yes. But if those safeguards were built in, I would like to hear more from the AFL-CIO. Say if the legislation was written in such a way that it would have the protection that would be needed to safeguard those employees.

Mr. **Seidman**. I am not sure that we think there are any effective ways.

Chairman **Ford**. There might not be. I am just exploring this, we ought to look at it. I do not want to close the door on the voucher program. It might be that you know, I heard Mr. Campbell talking earlier about a stipend if these people could be placed on you know, if they could be gainfully employed.

I am not advocating any of it at this time. I am really searching for solutions to some of these problems.

Mr. **McGlotten**. It seems to me, Mr. Chairman and the policy of the AFL-CIO is very, very clear on the whole question of vouchers and jobs targeted tax credits because basically what you are doing is using the Internal Revenue Code and tax policy to try to deal with the human kind of policy rather than to attack it directly. You are just putting it off today but you really have to deal with the whole question of developing some kind of manpower policy in this country to address the needs of the unemployed and address the needs of our industrial base.

And I think by just putting a voucher system in, saying that that is going to resolve some of the problems relative to the unemployed is putting off the day when you really need to address the real problem. We went through this in 1967; we went through this in 1977, 1976, and 1975. Basically, we still have not addressed the problem.

We called for 65 weeks of unemployed compensation, but you are absolutely correct. What happens to those individuals who now have 55? We are still not addressing the question of what do we do about jobs for those unemployed persons who want to work and basically need to work to survive and protect their families? We are not addressing that problem with the voucher program, Mr. Chairman.

Chairman **Ford**. Maybe not. I am not advocating that we would be, but I am concerned—take my own home district, the rubber industry. Firestone closed a plant in my home town—not laying off, but just closing down—and some 3,000 or 4,000 rubber workers will be affected by it; 3,000 or 4,000 highly skilled rubber workers in that particular industry.

We have been fortunate enough in the last few months to attract a few other industries into our home town. These people will have to be retrained. I know that several companies are asking the skill centers and all to train. There is very little training money around, but at the same time, some of the jobs have been posted in the area. Some of the highly skilled people in other areas could very well move over into other jobs.

What kind of incentive would there be for them to train their own people, I am wondering? Maybe not the voucher plan but something that would give industry—that would employ a few people and would not look to the training centers or the technical institutions because when you talk about those technical institutions I am not sure that you are bringing in two or three new industries into your city that you can train them that quick. And whether the States can put up the money to do it.

Mr. McGLOTTEN. Mr. Chairman, may I respond to that whole question of training? The employers really do not need incentives to train individuals for new occupations and plants. Our employers—and we hope that they make all of the money possible, that is what they are in business for. And if they feel as if they need a new skill, they will train for that new skill without any incentives from the Federal Government.

The fact of the matter is do they have a marketplace for the products that they produce. That is the big question. And that is when you get at the nub of really trying to deal with the undergirding of what we are going to do with our industrial base and what we are going to do with people in terms of training. Employers really do not need any incentives to train.

What employers need is a marketplace to sell their products so that they can train people. That is basically the nut of the whole entire problem that we are facing today. Our industrial base is drying up more and more every day. We have policy in this country which basically just allows—take, for instance, United States Steel to go into the oil business in terms of Marathon. Not so much that we are opposed to United States Steel going into Marathon, but the fact of the matter is that United States Steel does not even know whether or not this country has a policy that it is actually going to purchase its steel.

So it is in business to make money, so it buys Marathon Oil. Unless we have a policy to address that question of United States Steel's concern, then we really have not dealt with the real problem. And any kind of incentives to employers, unless they are really making a product that is selling, will not really meet the needs of the unemployed that are out there today.

Chairman FORD. Mr. Pease?

Mr. PEASE. Mr. Chairman, I am sorry that I came in late. I have been busily skimming the testimony, trying to get up to speed. I could not agree with you more that the basic problem in our society is that there are not enough jobs. We have to get an economic recovery before we can put people back to work. And anything that we do in this committee is by way of paliative; it is not a solution.

But I guess I do not quite understand your opposition to this voucher plan, and I would like to understand it before I leave here today. Granted, which I certainly will, that that is not the whole solution and should not be represented as the whole solution or even much of the solution, what harm can come from that voucher system?

Mr. **Seidman**. The harm that can come from that voucher system, as far as we are concerned, is that first of all, that it will create an illusion that something is in place which will provide employment for any substantial number of people, and that we doubt very strongly.

But second, to the extent that this is done, that it will displace regular workers; and third, that even those workers who get the jobs, once the subsidy runs out, may be discharged from those jobs because the employer will no longer have the subsidy to pay their wages. So we think that this is just not the way to provide decent, long-term employment commensurate with workers' skills that we think they ought to have.

To the extent that we are not providing jobs, then we have got to have unemployment insurance to fall back on.

Mr. **Pease**. Well, if we have unemployment benefits, whether it is for 39 weeks, 52 weeks, 65 weeks, pick your figure, sooner or later people are going to run out of benefits. What happens then?

Mr. **Seidman**. In the first place, we think that there should be—and we hope the Congress is about to enact—a large jobs program to provide jobs for large numbers of the unemployed. That will not only provide jobs for the unemployed in those jobs, but we think it will also result, through the multiplier effect, in creating a lot of jobs in private employment for many other workers, and eventually, far fewer workers will need those public jobs.

But we think that is the route we should be taking, rather than subsidizing employers by using unemployment insurance funds for that purpose.

Mr. **Pease**. Is there something wrong with taking both paths at the same time?

Mr. **Seidman**. We think there is something wrong with taking the path of the subsidies to employers because we think that that is likely to displace their present workers.

If an employer has the choice between paying wages to a worker, it requires no greater demand now than before, the employer has a choice between paying full wages out of his own pocket to the employee who is already there or discharging that worker and hiring a worker who is going to subsidize him with an unemployment insurance payment, then the employer has a strong incentive to hire the worker who is subsidized.

Mr. **Pease**. Well, granted that there is an incentive there, I do not know what guesstimate you would place on the number of instances where that would happen—10 percent, 20 percent, who knows?

Mr. **Seidman**. It might be a very large proportion of the number of cases where the system is used at all.

Past experience has indicated that that kind of a system is not used much at all. But to the extent that it is used, there is no way of being sure that it will not be misused in that fashion.

Mr. **Pease**. So wouldn't that, in a sense, be sort of spreading the misery around, even if there was displacement? You have not increased unemployment, you have not increased employment, either; you have the same number of employees.

Mr. **Seidman**. We are not in favor of just spreading the misery around.

Mr. **Pease**. So you think that there is no benefit to having a person who has been out of work for a year or close to a year, to give that person some employment?

Mr. **Seidman**. Give that person full-time employment by firing a worker who is already on the job? No; we are not in favor of that.

Mr. **Pease**. I am not in favor of it, either, but I think at least one can argue from a social point of view, that that is not all bad, anyway.

Mr. **Seidman**. We do not think that the burden of the cost of unemployment ought to fall only on workers who are employed. We think that that burden ought to fall on the whole of society. We do not think that workers ought to be giving up their jobs in a system of rotation.

Mr. **Pease**. Wouldn't the employer, though, who fired or laid off a worker in order to take advantage of this be liable for unemployment compensation for the worker he laid off?

Mr. **Seidman**. Possibly, but that would depend a lot on this peculiar system of experience rating which determines what an employer pays. And depending on whether the employer had laid off other workers before and so on and so forth, it might or might not result in that. And we do not know whether it would result in it anywhere near to the same extent as what the employer would receive in the form of subsidy.

Mr. **Pease**. You mentioned the possible problem of employers hiring someone to take advantage of this voucher and then laying that person off again. Wouldn't the employee be better off for having had 20 weeks of employment as opposed to none at all?

Mr. **Seidman**. If you pose as the alternative the employee having the 20 weeks of work in that kind of a situation, or the employee having unemployment insurance and, at the same time, looking for other possible work if there were any work in that area, I would think that the latter would be preferable to the former.

Mr. **Pease**. You think it would be preferable for the worker not to work but to collect unemployment compensation?

Mr. **Seidman**. Not to work in that kind of a job for 20 weeks and then be discharged at the end of the 20 weeks, when that worker could have been receiving unemployment insurance and also, seeking a real job, since that did not offer him a real job.

Mr. **Pease**. By definition, though, the worker could not be any worse off financially than he would have been if he had stayed on unemployment compensation.

Mr. **Seidman**. You cannot be sure of that, either. It would depend on whether or not during that period the worker could have obtained some other employment, which the worker is very unlikely to be able to do while working at this so called job for the 20 weeks.

Mr. **PEASE**. Isn't it almost as unrealistic to expect that a worker could get a decent job during that period with 11 million people unemployed?

Mr. **SEIDMAN**. It would depend on the area, on the circumstances and what was happening in the economy and a lot of other things.

Mr. **PEASE**. Don't people get jobs all the time when they have other jobs, while they are holding down other jobs?

Mr. **SEIDMAN**. For the most part, people do not get jobs while they are holding down other jobs. There is a period, short or long, in between jobs when they seek other jobs.

Perhaps in highly skilled work or in very high level managerial and professional work that kind of succession takes place, but for most workers I do not think it does.

Mr. **PEASE**. I am interested in your statement where you are opposed to conditioning the number of weeks of extended benefits, supplemental benefits, on the unemployment rate in the State. Is that right?

Mr. **SEIDMAN**. Yes.

Mr. **PEASE**. But if we are going now from 6 to 16 weeks, I think it is right now under the present plan, that averages out to 12. Do you think we would be better off with the whole country at 12 weeks rather than some at 6 and some at 16?

Mr. **SEIDMAN**. We are advocating that there should be 65 weeks, at least 65 weeks of unemployment insurance for all workers in the country. But this is a position which we have consistently taken over a long period of time. This is not a new recommendation as far as we are concerned.

We have been advocating this for at least 15 years that I know of, and we have done this because we feel that all workers, when they are unemployed, should have the opportunity to obtain unemployment insurance and that it is of no particular help to a worker to know that there is a large amount of unemployment or a small amount of unemployment relative to someplace else where that worker lives.

On the other hand, we also feel—and we made it clear in our testimony also—that a great deal more should be done by way of providing training, employment, vocational guidance, the kind of assistance that workers need. The longer they are unemployed, the more of that they need. Which we have not been doing in this country. And that ought to be available in bad times and in good times. But these are very bad times, Mr. Pease. They are bad times all over the country.

The opportunities for workers to obtain jobs are very, very limited almost everywhere, and on that basis we think that at least 65 weeks of unemployment insurance ought to be available everywhere. To the extent that the economy begins to improve, if it does, then by all means, training for real jobs and those opportunities ought to be available for a lot more workers than have them available to them today, and this in our minds requires that they either be on unemployment insurance during that period or that stipends be available to them that are no less than unemployment insurance.

Mr. **PEASE**. I appreciate those comments, on training especially, and I like to know for the record that AFL-CIO, Mr. McGlotten in particular, have been strong supporters of my own legislation to provide retraining opportunities for workers. Did you want to add a comment?

Mr. McGLOTTEN. I just would like to add that we are certainly in favor of rather than the tiered system—the tier system basically was there for budgetary purposes; it was not there for any kind of rational reason. It was there on the basis of how much money was spent. We would like to see every State that has long term unemployed workers with 55 or 65 weeks. I think that was part of what you were asking before.

Mr. PEASE. Yes; well, let me ask you, Do you think there is any connection at all between the ability of a worker, a laid off worker, to find a job and the unemployment rate in his State?

Mr. SEIDMAN. Yes; I think there certainly is a relationship, but that is not the same thing as saying that the worker who is unemployed for a long time—in our opinion, unemployment insurance should be paid to workers only when they cannot obtain employment. And the employment service ought to be given sufficient resources to make sure that that is so. We are not in favor of paying unemployment insurance to workers who can obtain suitable employment.

But if suitable employment is not available, then we think that unemployment insurance plus opportunities for these other types of assistance should be available to all workers.

Mr. PEASE. So, if the budget constraints would be that we could afford across the board 55 weeks for everybody or 65 weeks for everybody, you would think that it would be better to pay 65 weeks for everybody rather than to pay, for example, 55 weeks for people in States that have lesser employment and 80 weeks for those who have a high unemployment?

Mr. SEIDMAN. I think that when unemployment is as high as it is all over the country at the present time, regardless of whether you agree with our position or not as to having a permanent program of 65 weeks, that it is very hard to justify making these distinctions, and that in terms of the individuals involved, a very inequitable situation develops.

Mr. PEASE. I really want to pursue that. I have a 24-percent unemployment rate in my home county. It is sort of ridiculous to send a worker out to try to find a job when there is an unemployment rate of 24 percent.

If that same worker were laid off in Florida and the unemployment rate was 6 percent, I would say well, the guy has a pretty good chance if he goes out and tries to find a job in that situation, and he is persistent. Sooner or later, he is going to find a job. But at 24 percent, it is pretty hard to imagine that that would be the case, yet under your proposal we would treat both those workers the same.

Mr. McGLOTTEN. If I may, Mr. Pease, let me take for example the State of Virginia. You have a new Member of Congress, Mr. Boucher, who is from the western part of Virginia. The insured rate in the State of Virginia is now 2.4 percent. The unemployment rate in his district in the coal fields is something like 29 percent; yet his State, under the tier system, is only receiving 8 additional weeks of unemployment compensation.

The point being that there are pockets of unemployment in various States, and when an economy is depressed like ours, it is very, very difficult for people to move around and use their feet to find jobs. It is very, very difficult. And this is the reason why we advocate a 65-week program in the kind of depressed economy such as we have now.

Mr. **Pease**. Well, I can understand that. But if it is 27 percent in Mr. Boucher's district, it has probably got to be 2 percent or so in Arlington, Va. So if a person is unemployed in Arlington, Va., does he get 65 weeks the same as my field worker in Lorain?

Mr. **Seidman**. I think anyone who is unemployed in Arlington or anywhere else ought to be required to accept suitable employment when it is available. All employers ought to be required, in our opinion, to report on job openings to the employment service so that those workers would be informed of the availability of those jobs. And if the worker did not accept a suitable job commensurate with the worker's level of skills and so on, the worker ought to be denied unemployment insurance.

Mr. **Pease**. Mr. Campbell, I will yield to you or you can take your own time if you would like.

Mr. **Campbell**. Let me pursue something you started on a moment ago, the pockets of unemployment. Mr. Oberstar testified before us earlier concerning his bill dealing with sub state units to deal with pockets. I have not embraced that, but it certainly makes more sense to me that you would deal with substate units as far as eligibility before you would make it blanket across the State.

I too have a county that has had 27.5 percent unemployment. I have one next door that has about 9 percent. I see the problem, but I do not see your argument, really, that where a State may have very low unemployment and their eligibility just goes on and on, whereas another State like Ohio or someone could be extremely high and they have the great need.

Mr. **Seidman**. I served on the National Commission on Unemployment Compensation.

Mr. **Campbell**. Is that the one under the last administration? I read that report.

Mr. **Seidman**. And we looked into this question. The Labor Department looked into this question. It is our understanding that it is very, very difficult to develop the figures that you are talking about, which would make possible determining extended benefits or supplemental benefits on the basis of area levels of unemployment.

This is a proposal which has been made a number of times and it has been looked into. So apparently from an administrative point of view this would be very difficult.

Mr. **Campbell**. Well, they do target in different areas right now. The Federal Government, as you well know, targets programs to counties or parishes, depending on what your State is, that happen to have a higher level of unemployment that makes them eligible for certain bidding under Federal programs. And every State that I am familiar with keeps their unemployment statistics broken down by at least the subdivision of the county.

Mr. **Seidman**. Those are annual figures.

Mr. **Campbell**. I do not know about all the States, but most of them.

Mr. **Seidman**. These are annual figures, and I don't think you could administer this kind of program

Mr. **Campbell**. I do not believe it is annual. I think it has to sustain over a period of time, whatever the reporting period that they use, and I am sure some of them are annual. But the point is that some of it is done. I am not advocating it. I am just saying, it seems to me it would be a better way to do it.

I am concerned with this idea of, let us just extend it across the board and not try to put it where we need to help. There are areas that need it more than others.

Mr. **Seidman**. We think that the needs are the needs of the workers and not of the areas per se, and if workers are unemployed a long time and are unable to find suitable employment then we think those workers are entitled to these benefits.

Mr. **Campbell**. But the difference between you and me is that I think that we have finite resources and evidently you do not, and I think we have to allocate where the need is. That apparently is some difference of opinion.

Mr. **Seidman**. That is a question of tax policy, which is not the subject of discussion today. But that has something to do with it also.

Mr. **Campbell**. It has to do with a lot of things, inflation and high interest and everything else, that we could go through, but I am not getting into it. I just happen to think that we have to target where we do have some resources and we want to put it where the people who are out of work need it.

There are a couple of other things. We were discussing the voucher. We have had testimony earlier from disinterested parties that said, well, the voucher system may not create the number of jobs that the administration had said, but the good thing about it might be, in the small business area particularly, where there was the question of the creation of a job or not creation of a job, that it may be the deciding factor in creating that job.

Now, would you disagree with that?

Mr. **Seidman**. Yes; I certainly would disagree with it, because it is for a very limited period, and in the case of the small business person you are talking about in percentage terms, adding one worker means adding a large percentage, whatever it may be, of the total employment of that employer, and I would think that the employer would think a long time about adding a worker just on the strength of getting a subsidy of 50 percent of an unemployment insurance check for a short number of weeks.

Mr. **Campbell**. I would disagree with you, because I happen to think that that might be a very strong incentive for a small business. I can understand some other arguments, but where a company might be a small company, small business, and might be considering adding a person and it was very marginal as to whether they could afford it or not, it might be a deciding factor.

It may not create that many jobs, but I see it as a plus.

The other things that I think should be taken into consideration—your argument about the laying off of a worker and the hiring of another one, it would, if it were done other than with a large company with one or two people, it would begin to impact your experience rating, which would impact your outlay. There is no question that that would have to happen.

Mr. **Seidman**. If there are large numbers of workers involved, yes.

Mr. **Campbell**. Or small companies with small numbers of workers involved.

Mr. **Seidman**. It would depend on what the previous record had been.

Mr. **Campbell**. It is going to impact you anyway. If you are a company with 20 people in there and you do 2 or 3, you are beginning to get an experience rating that is going to impact on you. And I think that, while I have the concern that you have and I think we ought to try to safeguard it any way we could, I think that there may be a built-in safeguard that is a disincentive to do that, that people should begin to look at, as well as any penalty that you could put in which should be in there.

I do not think that the voucher system is any panacea. I do not think it is going to solve anything. I think that it could be part of something that could help. I think that we have to bridge back to employment.

There is one other thing about the voucher system that we have not touched on, though—retraining. I am very interested in that because I think that a lot of our industries are in a transition. They are in effect industries who have workers where the skills themselves are not going to be required any more.

I heard a steelworker testify this morning on the job that he held. I know and he knows and everybody sitting at that table knew that that job in the exact skill he has is not going to be there because the world changed, and he needs retraining.

We have to make that transition, and I certainly hope we concentrate on that. I also see the voucher as a possibility there, and where a person might hire someone that did not have the skills, it really was not worth the pay to him coming in but it had the potential to be some incentive toward retraining if you could have it. This is just my own belief.

I wonder if you would disagree with that?

Mr. **McGlotten**. Well, I think, Mr. Campbell, that in terms of the unemployment compensation voucher, as we understand the proposal it is 50 percent of the total amount. If you look at the average unemployment compensation amount, somewhere around $108 a week, so 50 percent of that relative to what it costs the employer to train an individual, he would be better off by going to the targeted jobs tax credit route where he would get a bigger tax credit in terms of the amount of money.

Mr. **Campbell**. If we take the average of $50, but it depends on that, because you are also drawing commensurate with what you had in your other job and your earnings. You look at the different levels of pay in drawing unemployment.

We could make the same argument where someone was getting $200 a week in unemployment and you have over $100 going in because their particular level of earnings ability may have been higher because they were earning higher.

I understand what you are saying, because of the dollar tradeoff that, yes, there might be another way. I am interested in getting them to go, not in the way that they go.

Mr. **McGlotten**. I understand what you are saying, but I think that more importantly in terms of what we are saying is that a voucher system is in our mind just an excuse to really get about the job of really talking about training people for all practical purposes. It has too many flaws.

Also, it offers a great deal of encouragement on the part of a variety of people to think that because they have a piece of paper they are going to do something. Right here in Delaware just last week, you had something like 3,000 people, 3,000 of them had a piece of paper, but only 300 of them were being employed at the drydock shipyard. And the same thing can be multiplied over and over again.

What we are saying is, do not create another system, you know, that tries to give encouragement to people, to say that once you have this you are absolutely going to be employed. Half of the people in Detroit today if they had vouchers would not know what to do with them.

We are just putting off the day in terms of trying to deal with the real, honest to goodness problems, and I think seriously, I think we ought to think about addressing those problems. Because in the minds of many people, Mr. Campbell—and you know this as well as I do—and also Members of Congress, once you do something you think you have really solved the problem.

The voucher is not solving the problem. We are just putting off the day when we really have to address it. Take for instance, we have a brandnew training bill. That brandnew training bill that we had that was enacted last year has no stipends in it. So as a result, unless an individual can at least survive and have the bare essentials, it is very, very difficult for that individual to even go into a training.

Mr. **Campbell**. I can appreciate that. But let me go back and tie two points together for you. No. 1, if in fact the extension of unemployment benefits is made longer in those areas of high unemployment and shorter in those areas where unemployment is lower, as we go through a period of time would it not, if that person in that area of high unemployment, where the steel industry is never going to hire them all back because they are going through a change or where automobiles are not going to hire them back because they are faced with the same problem, would that not give that person something that they could go into if they chose, because they had something tangible. They might go to Florida and I am just pulling that out because Mr. Pease used that State; I am not picking on Florida.

But they can go to Florida, if they have a low unemployment rate there, and use that and get a job. Would that not be something that would give them that incentive to go and seek a job with a better than even chance against someone who did not have it?

Mr. **Seidman**. I do not think it would be a better than even chance for the job in Florida. It might displace the jobs of workers in Florida, who would be extremely resentful of workers coming down there with a piece of paper that would encourage an employer to hire them in Florida and displace Florida workers.

Mr. CAMPBELL. Well, of course, if they were displaced immediately and they had the problem, they would hit the eligibility.

One of the major problems we have is with unemployment pockets where the job market itself is somewhere else.

Mr. SEIDMAN. But we are not faced with a shortage of jobs in very many places in this country, where workers can go from Michigan or Indiana or Pennsylvania to those areas and find jobs. We have had some very, very tragic situations, as you well know, develop in recent months.

Mr. CAMPBELL. No question. They have gone and looked and the jobs were not there. I have seen some very tragic situations.

Mr. SEIDMAN. It is a tragedy for the workers who have gone into those areas and it has been a tragedy for the areas who have been the unwilling hosts.

Mr. CAMPBELL. Well, the tragedy I have seen, of course, is they have been without benefits and the people have come in with no job and maybe even a skill that was not commensurate for the job market which they were coming into. And of course I go back to the training, and we need it.

But I am just wondering if that same worker who came in where there was a need for a job, without the necessary skill but with the voucher might get the opportunity.

Mr. SEIDMAN. I do not know if a worker in Michigan knows that that job exists in Florida or Texas or wherever. There is no way that that worker knows that. The Texas employer does not have to report it to anybody. There is no way that the worker knows that. Instead, what we have had is this completely unorganized, chaotic, and tragic migration.

Mr. CAMPBELL. Well, I just think there have got to be more answers, and I go back to the point that I do not think that this is any program in and of itself. I think it is a part of the whole.

But I certainly do not think that your solution of slapping on 65 weeks is any program either. I think that you just need to target and you need to try to mesh resources.

Mr. SEIDMAN. It would be a program for those four men who stood here and did not know what was going to happen to them until the country gets on its feet, and that is all we are asking.

Mr. CAMPBELL. No, sir, I think you are wrong, because some of those people had jobs whose skills were directed to one job, but that job will not be back again. I think you are going to have to target those people.

Mr. SEIDMAN. You heard them say——

Mr. CAMPBELL. But the training program is what you are going to have to deal with there.

Mr. SEIDMAN. Then we should institute training programs. But that has nothing to do with vouchers.

Mr. CAMPBELL. Oh, I think it may have. That is where you and I disagree.

Mr. SEIDMAN. That is where we disagree.

Mr. CAMPBELL. Well, that is good. Thank you, sir.

Mr. PEASE [presiding]. Thank you very much to both of our witnesses.

The next panel will be from the Chamber of Commerce of the United States: Donald Whiteley, David Lotocki, and Eric Oxfeld. Gentlemen, you may proceed in any order that you wish. Please identify yourselves as you speak.

STATEMENT OF DONALD P. WHITELEY, MEMBER, COUNCIL ON UNEMPLOYMENT COMPENSATION, CHAMBER OF COMMERCE OF THE UNITED STATES, PROFESSIONAL EMPLOYMENT REPRESENTATIVE, ICI AMERICAS, INC., ACCOMPANIED BY DAVID W. LOTOCKI, MEMBER, COUNCIL ON UNEMPLOYMENT COMPENSATION, MANAGER, BENEFITS COMMUNICATION AND ANALYSIS, MARRIOTT CORP.; AND ERIC J. OXFELD, EMPLOYEE BENEFITS ATTORNEY

Mr. WHITELEY. Thank you very much.

My name is Donald Whiteley. I am a professional employment representative for ICI Americas, Inc., and a member of the U.S. Chamber's Council on Unemployment Compensation. I formerly served as Secretary of Labor for the State of Delaware.

With me on my left is David Lotocki, manager, benefits communication and analysis, Marriott Corp., and also a member of the Council on Unemployment Compensation. And we are accompanied by Eric Oxfeld, employee benefits attorney for the chamber.

We appear today on behalf of the U.S. Chamber to urge you to take the following actions to restore the integrity of the unemployment compensation system. We want to require States to repay UC advances, stop diversion of FUTA revenues, require public and nonprofit employers to pay their full costs, convert FSC from an income maintenance program to a reemployment program, improve the linkage between UC and employment and training programs, and study other employment initiatives involving unemployment compensation.

As a major spokesman for the employer community, the U.S. Chamber has had a longstanding interest in and concern about and certainly support for the unemployment compensation system. The financial problems of the system, however, have reached dimensions that threaten its viability, and the chronic indebtedness of the unemployment trust fund can only—and must—be corrected through changes in benefits, taxes and administrative practices.

The responsibility for these changes rests primarily on the shoulders of State officials. The most important steps the Federal Government can take to insure the integrity of the UC system are to provide a climate for sustained economic recovery, remove impediments to employment created by Federal laws, and supplement State UC reform efforts by making the changes in Federal UC laws.

The unprecedented bankruptcy of the unemployment trust fund is a grave concern that has not drawn sufficient attention from the policymakers, who seem primarily concerned with speeding cash payments out to the unemployed. Certainly we think this is an important function, but on the other hand Federal advances to the States that have depleted their benefits and reserves reached $10.6 billion by yearend 1982 and are projected to reach nearly $17 billion by the end of this year.

In addition, there are another $6.8 billion in Federal advances to the extended benefit account, largely a $5.8 billion debt from the expired FSB program. These advances must be repaid by employers through higher payroll taxes.

It is imperative that Congress refrain from taking steps that will magnify the financial burdens of the unemployment trust fund or discourage States from taking swift remedial action.

Some State officials harbor the hope that debt resulting from these advances will be forgiven, saving their States the painful ordeal of facing up to balancing expenditures against revenues. Employers do not expect forgiveness, nor are we asking for it. We are urging all of our members to work at the State level to help solve the financing problems. On their own initiative a number of States, including Michigan, Louisiana, and Ohio, have recently passed major reform legislation, and other States are nearing agreement on how to proceed.

Accordingly, we urge the members of the subcommittee to set the record straight: Forgiveness of the Federal UC loans is not forthcoming and States must address their own problems without further delay. Postponing resolution at the State level will simply make the problem harder to address at a later time.

Moreover, our philosophy is unchanged that interest should be charged on Federal loans, even though we recognize that the costs in many instances will be passed on to the employers. Prior to the interest requirement, it was good money management for the States to borrow and let the Federal Government automatically recover the loaned funds through an escalating reduction in the employers' offset credit. It was ludicrously easy for State governments to raise benefits and then let the Federal Government figure out how to pay for them.

Charging interest on loans attracted the attention of State officials as nothing else could, short of cutting off additional funds to States in default on repayment.

Finally, we support the cap concept whereby a defaulting State may spread out repayment of existing debt, provided it takes steps to avoid further borrowing. At a minimum, a State that cannot meet existing benefit claims cannot be permitted to raise benefits unless it is willing to raise revenues or make other compensating changes, including benefit reductions.

A second point is to stop the diversion of FUTA revenues—the use of the Federal unemployment tax receipts for purposes other than services to UC claimants. Although often overlooked, one fundamental objective of the UC program is to assist UC claimants to find new jobs before they exhaust their benefits, one of the numerous functions assigned to the U.S. Employment Service.

Indeed, one of the principal uses of receipts from employers under the FUTA Act is supposed to be to pay for services to UC claimants. Although 97 percent of the ES costs are financed from FUTA revenues, in actuality services to claimants are estimated to represent no more than half of the ES activities. The total FUTA grants for ES in fiscal year 1983 are projected to be $778 million, in the 1984 budget $932 million.

If FUTA funds had not been diverted to pay for non-UC related functions, there would have been far more resources available to enhance placement services for claimants, as well as better controls on benefits, fraud, and abuse. Overpayments are thought to be as high as one-third of all benefit costs.

Moreover, there would have been no need for the FUTA increase levied last year, estimated to amount to nearly $3 billion from 1983 to 1985, an added impediment to employment growth at the worst possible time.

Symptomatic of this diversion of FUTA revenues is the blatant use of FUTA to finance the cost of administering the FSC program, despite the specific provision in the legislation which established the FSC program and which mandated general revenue funding for the FSC administrative costs. With limited FUTA revenues available for benefit payment controls and placement services for the unemployed, it is rather shocking to discover that a major part of FUTA revenues are spent for purposes other than services to UC claimants.

We are not advocating that these non-UC related functions be abolished, merely that some other revenue source be found to pay for them. Lack of adequate funds for UC administration is a critical problem now when claims volume is at an all-time high in many States. Diversion of these funds from their basic purpose is a poor choice of priorities, in our opinion.

We also believe that public and nonprofit employers should be required to pay their full costs. This is another financial problem which faces the fund. And it involves insufficient contributions from nonprofit employers and government agencies. Federal law requires States to cover their employees, but these employers, nonprofits and the Federal Government and State agencies, are exempt from FUTA and make no contribution towards the administrative expense, estimated to exceed about $100 million annually.

Moreover, in many cases they do not pay even the full cost of benefits paid to claimants based on services performed for them. As a result, that burden is shifted to the trust fund, resulting in higher payroll taxes on private employers.

We believe Federal law should require that reimbursable employers pay the full cost of benefits attributable to service performed for them. Federal law should also require employers who are exempt from FUTA to make an equitable contribution toward the cost of claims administration.

I would like to have Mr. Lotocki continue with a few other points.

Mr. LOTOCKI. Thank you. It has been a long day for everyone, and I will certainly try to keep our remarks brief. A fourth matter that we feel warrants the committee's attention is the conversion of FSC from an income maintenance program to a reemployment program. We feel that in addition to solving the financial problems, more emphasis should be placed on reemployment rather than simply income maintenance.

FSC is a good example. Today FSC provides 8, 10, 12, 13, 14, or 16 weeks of benefits to claimants who have exhausted benefits under the regular and extended benefits programs; that is, EB. Maximum duration fluctuates with the State insured unemployment rate, except that claimants in any State that was triggered on EB before

June 1, 1982, automatically get extra weeks regardless of the unemployment rate in that State.

This confusing hodgepodge of maximum durations requires a roadmap and a compass to keep score. Moreover, 8 weeks of FSC are payable even in five States whose insured unemployment rate is below 3 percent. And we feel that that is hardly an emergency that justifies extension of duration.

Another seven States and the District of Columbia have relatively low insured unemployment rates, between 3 and 4 percent, yet some of them qualify for 8 weeks, some for 12, and one State for 14. Delaware, with a 3.37 percent insured unemployment rate, qualifies for 14 weeks of FSC benefits. Yet North Dakota, with a higher insured unemployment rate of 3.45 percent, qualifies for just 8 weeks.

What seems to have been overlooked in the zeal to help the unemployed is the need for an effective program justifying this extension and the tax on UC benefits levied to pay for it. And in many cases, UC benefits combined with other sources of public aid are more than the claimant's takehome pay while unemployed.

As an example, in the State of Florida, a claimant earning the State's average wage may actually come out ahead on UC benefits combined with food stamps and other forms of assistance. It is not hard to understand why such claimants make little effort to find employment until their benefit duration comes to an end.

Extension of duration beyond the 6 months already provided under State law may merely encourage claimants to delay any serious search for work, thereby inflating the unemployment rate and adding to the Federal budget deficit.

A continued FSC program should be converted to a reemployment assistance program for workers with established work histories and who otherwise cannot help themselves. Paying 55 weeks of benefits to a claimant who worked only 20 weeks is a waste of scarce resources. We agree with the administration that 30 weeks of work should be the minimum requirement for FSC, whatever modifications a State agency would have to make to reconcile their earnings criteria to the 30-week minimum.

As an example, the concerns of the representative from the State of Michigan I think are somewhat unfounded, because at the outset, the initial determination stage, a claimant could be qualified as to, one, whether they qualified for EB that is, the 20-week work requirement; and at the same time a determination could be made as to whether they qualified—or would ultimately—for FSC, thereby having 30 weeks of benefits.

We do not see this as a tremendous administrative problem, and it is already a federally funded process by virtue of FUTA. Similarly, claimants who choose to leave their jobs in a labor dispute should not be permitted to draw 55 weeks of income support.

Although only a few States' UC laws overtly provide benefits to strikers, many States by their judicial interpretation pay benefits if the labor dispute does not force the employer to close down entirely. Equity demands that the Federal Government be neutral with respect to labor disputes. It should stop spending scarce resources to subsidize strikes. Federal laws governing EB and FSC should be amended to disqualify a claimant who is out of work because of a labor dispute.

Most importantly, FSC eligibility should be conditioned on participation in a reemployment program providing intensive job search assistance as well as referral to retraining for those claimants who cannot find jobs unless their skills are upgraded. The framework is contained in the displaced workers title, title III of the New Job Training Partnership Act, which encourages States to offer placement assistance and training for job losers whose skills must be updated in order to find new jobs.

Title III expressly exempts participants from UC work search requirements while in approved training. In the past, few individuals took advantage of even the limited training opportunities, in part because of the availability of long-term UC or trade adjustment cash benefits which discouraged claimants from accepting permanent changes in the job market.

Any further extension of benefit duration without mandatory job search or retraining will encourage workers to postpone adjustment to permanent job changes and defeat the intent of the JTPA.

Finally, a means test might well be appropriate for FSC eligibility. Considering that FSC is funded from Federal general revenues and considering the size of the budget deficit already, a means test might well be a fair way to target the program to those with the greatest need.

No. 5, we recommend improving the linkage between UC and employment and training programs. One fundamental objective of UC which has never been adequately achieved is to help claimants find new jobs.

Claimants are required to register with the U.S. Employment Service, which is financed from FUTA revenues. ES has been given numerous other missions, however, which have detracted from its ability to focus on service to UC claimants. At present ES makes little effort to refer claimants to training programs, and efforts to teach claimants how to find jobs on their own are regarded as experimental. Indeed, the cuts in Federal administrative grants have caused States to shelve the successful money saving programs so that staff may be used to handle the benefit claims load.

Participation in intensive job search programs should be mandatory for EB and FSC eligibility. As we stated earlier, FSC makes sense only if provided to individuals who are participating in job search assistance plans or retraining.

We now have a system in place that provides income support while claimants are in retraining. Federal law prohibits States from enforcing the work search test to disqualify a claimant who is in approved retraining. Moreover, JTPA specifically provides that a retraining program set up under the displaced worker title is approved automatically.

We strongly object, however, to diversion of revenues from the unemployment trust fund to pay for the training itself. The fund is heavily in debt, and the problem is growing daily. It is a fallacy to think that there is any money in the fund to be used for any new expenses. Few of the nondebtor States have adequate reserves to meet existing benefit needs.

The States that would most benefit from retraining have already depleted their balances, and the Federal Government would have to lend them money with employers picking up the tab later in the form of higher State and Federal payroll taxes. Payroll taxes increase, of course, add to total labor costs and will delay expansion of employment as the economy recovers.

Perhaps an even greater issue is the question of equity. Employers accept the responsibility of paying for income support during periods of temporary involuntary unemployment, but the cost of retraining the long-term unemployed is not a predictable business expense. It would be more equitable for society to share such costs through general revenue financing.

And finally, we urge you to study the other employment initatives involving unemployment compensation. We feel that we need more information before we can assess the employment proposals contained in the administration budget message that contemplates changes in the UC program.

Those changes, for example, include converting FSC benefits to a wage subsidy voucher that an employer could redeem for a credit against taxes. We have reservations that this proposal may not create any new jobs and could shift unemployment among groups of the unemployed. Frankly, we are not clear as to the figure of 700,000 jobs that Assistant Secretary Cogan brought up this morning.

If 700,000 jobs were to be created over the next year or so through the voucher program, if a voucher represents 50 percent of the claimant's weekly benefit amount, is it 700,000 jobs or 700,000 weeks' worth of work? We are uncertain, Mr. Chairman.

Furthermore, the possibility for abuse is very real. Aside from the practice of displacing an incumbent worker with a tax advantageous one, an unscrupluous employer might tell job applicants who are in their last week of regular benefits or EB to return after becoming eligible for FSC.

Finally, if the net result of the voucher would be a reduction in already scarce FUTA or State UC receipts, the trust fund can ill afford this proposal.

Urge the States to permit work sharing is another proposal by the administration that we are concerned about. The States already have authority to permit payment of benefits for partial unemployment to claimants whose work hours had been reduced by 10 percent or 20 percent in lieu of total layoffs. Work sharing does not encourage new jobs or retraining. It does add one more administrative function to an already overburdened system.

Moreover, any employer can now shorten work hours and pay extra compensation for the reduced work time without ever involving the UC system. We strongly oppose any Federal standard requiring States to offer work-sharing benefits, and we recommend that the Labor Department complete its study of the three States—that is, California, Arizona, and Oregon—that now permit work sharing, before it is encouraged as Federal policy.

The administration also proposes encouraging States to permit claimants to work part time and keep full benefits. Again, we strongly oppose any Federal standard directing States to pay benefits to claimants who work part time. All States already disregard some portion of earnings when claimants accept part-time work. Many pay reduced benefits on a sliding scale to claimants who earn up to one-half of their weekly unemployment benefits. Changing these requirements will only add to the administrative burden.

Moreover, we are concerned that this recommendation may lead to higher unemployment costs with no increase in employment. For example, in many States benefits are one-half of high quarter earnings. For retailers whose part-time workers are full time over the Christmas season, benefits may well be as much as their regular part-time earnings because many States compute benefits on that high quarter of earnings.

If the claimant is offered the usual part-time hours of work in January but refuses, present law provides a disqualification from benefits, and the employer will hire someone else. If the claimant can keep full benefits and work part time, there is no disqualification, and there is a continued drain on the trust fund.

In conclusion, business strongly supports the UC system, which has worked well to provide a public system of insurance against short-term involuntary unemployment. Today the unemployment trust fund is in dire financial condition.

We recommend that Congress take steps to help sustain economic recovery as the best aid for the UC system and that other changes in the UC laws be made to restore its integrity. These would include requiring States to repay Federal advances; discontinuing use of FUTA revenues for other than services provided to the unemployed; requiring Government agencies and nonprofit employers to pay their full share of benefit costs; converting FSC to a reemployment program; improving the linkage between UC and employment and training programs; and finally, refraining from unwise employment initiatives that create new Federal standards for State UC programs.

It is imperative that Congress advise the States that the advances to their UC trust accounts will not be forgiven. And finally, Congress should provide general revenue funding for FSC administration expenses in accordance with the law establishing that program.

We would be happy to answer any questions.

[The prepared statement of Donald Whiteley and David Lotocki follows:]

STATEMENT OF DONALD P. WHITELEY AND DAVID W. LOTOCKI

My name is Donald P. Whiteley. I am Professional Employment Representative for ICI Americas Inc., and a member of the U.S. Chamber's Council on Unemployment Compensation. I formerly served as Secretary of Labor for the State of Delaware. With me today to present our views on the unemployment compensation issues before this Subcommittee are David W. Lotocki, Manager—Benefits Communication and Analysis, Marriott Corporation, and also a member of the Council on Unemployment Compensation. We are accompanied by Eric J. Oxfeld, Employee Benefits Attorney for the Chamber.

We appear today on behalf of the U.S. Chamber to urge you to take the following actions to restore the integrity of the unemployment compensation (UC) system:

1. Require States to Repay UC Advances
2. Stop Diversion of FUTA Revenues
3. Require Public and Nonprofit Employers to Pay Their Full Costs
4. Convert FSC From an Income Maintenance Program to a Reemployment Program
5. Improve the Linkage Between UC and Employment and Training Programs

6. Study Other Employment Initiatives Involving UC

BUSINESS SUPPORTS UNEMPLOYMENT INSURANCE

As a major spokesman for the business community, the U.S. Chamber has had a long standing interest in, concern about, and support for the UC system. Unemployment insurance is designed to serve the needs of involuntarily jobless workers by providing cash benefits during periods of temporary unemployment, with the cost of those benefits being treated as a cost of doing business.

A fundamental objective of an unemployment insurance program is to operate as a countercyclical balance during periods of economic recession. UC sustains the purchasing power of individuals who are out of work, cushioning the decrease in demand for goods and services and thereby preventing secondary or tertiary levels of unemployment. For these reasons, UC is beneficial to employers as well as employees.

The UC system is financed primarily by state and federal payroll taxes on employers, except for weeks of federal Supplemental Compensation (FSC), which are properly financed from federal general revenues.

UC ISSUES THAT NEED TO BE ADDRESSED

The severe financial problems besetting the UC system have reached dimensions that threaten its viability. The chronic indebtedness of the Unemployment Trust Fund must be corrected through changes in benefits, taxes, and administrative practices.

The responsibility for these changes rests primarily on the shoulders of state officials. The most important steps the federal government can take to help the UC system are to (1) provide a climate for sustained economic recovery, (2) remove impediments to employment created by federal law, and (3) supplement state UC reform efforts by making the following changes in federal UC laws:

1. Require States to repay UC advances

The unprecedented bankruptcy of the Unemployment Trust Fund is a grave concern that has not drawn sufficient attention from federal and state policy makers, who seemingly are concerned only with speeding cash payments to the unemployed. Net federal advances to states that have depleted their benefits reserves reached $10.6 billion by year-end 1982 and are projected to reach nearly $17 billion by the end of this year (see Attachment 1). In addition, there are another $6.8 billion in federal advances to the Extended Unemployment Compensation Account (largely a $5.8 billion debt from the expired Federal Supplemental Benefits program). These advances must be repaid by employers through higher payroll taxes. It is imperative that Congress refrain from taking steps that will magnify the financial burdens of the Unemployment Trust Fund or discourage states from taking swift remedial action.

Some state officials harbor the hope that debt resulting from these advances will be forgiven, saving their states the painful ordeal of facing up to balancing expenditures against revenues.

Employers do not expect forgiveness, nor are we asking for it. We are urging all of our members to work at the state level to help solve the financing problems. On their own initiative, a number of states, including Michigan, Louisiana, and Ohio, have recently passed major reform legislation, and other states are nearing agreement on how to proceed.

Accordingly, we urge the members of this Subcommittee to set the record straight: Forgiveness of federal UC loans is not forthcoming, and states must address their own problems without further delay. Postponing resolution at the state level will simply make the problem harder to address.

Moreover, our philosophy is unchanged that interest should be charged on federal loans, even though we recognize that the costs in many instances will be passed on to employers. Prior to the interest requirement, it was good money management for states to borrow, and the federal government automatically recovered the loaned funds through an escalating reduction in employers' offset credit. It was ludicrously easy for state governments to raise benefits and let the federal government figure out how to pay for them. Charging interest on loans attracted the attention of state officials as nothing else could, short of cutting off additional funds to states in default on repayment.

Finally, we support the "cap" concept, whereby a defaulting state may spread out repayment of existing debt, provided it takes steps to avoid further borrowing. At a minimum, a state that cannot meet existing benefits claims cannot be permitted to raise benefits unless it is willing to raise revenues or make other benefits reductions.

2. Stop diversion of FUTA revenues

Although often overlooked, one fundamental objective of the UC program is to assist UC claimants find new jobs before they exhaust their benefits—one of the numerous functions assigned to the U.S. Employment Service (ES). Indeed, one of the principal uses of receipts from employers under the Federal Unemployment Tax Act (FUTA) is to pay for services to UC claimants.

ES is widely criticized, however, for failure to fulfill these expectations. In fact, only a small proportion of claimants ever find jobs through ES. A major factor contributing to the inattention paid to UC claimants is the failure of the federal government to pay for the non-UC-related functions of ES. In fact, 97% of ES costs are financed from FUTA revenues, even though services to claimants are estimated to represent no more than half of ES activities. Total FUTA grants for ES in fiscal year 1983 are projected to be $778 million, and the 1984 budget calls for $832 million.

If FUTA funds had not been diverted to pay for non-UC-related functions, there would have been more resources available to enhance placement services for claimants, as well as better controls on benefits fraud and abuse (overpayments are thought to be as high as one-third of all benefits). Moreover, there would have been no need for the FUTA increase levied last year as part of the Tax Equity and Fiscal Responsibility Act (TEFRA). The added FUTA collections as a result of payroll tax increases required by TEFRA are estimated to amount to nearly $3 billion from 1983–85—an added impediment to employment at the worst possible time.

Symptomatic of this diversion of FUTA revenues is the balance use of FUTA to finance the costs of administering the FSC program. This action is contrary to the specific provision, in the legislation establishing the program, mandating general revenue funding of FSC administration costs.

With limited FUTA revenues available for benefit payment controls and placement services for the unemployed, it is shocking to discover that a major part of FUTA revenues are spent for purposes other than services to UC claimants.

The following is a brief listing of FUTA-funding ES functions that do not aid UC claimants:

Labor exchange for all job-ready applicants (including those who are presently working or who never qualified for unemployment compensation).

Administration of special unemployment benefit programs:
1. Trade Adjustment Assistance.
2. Disaster Unemployment Assistance.
3. Other special employee protection programs.

Veterans' employment programs:
1. Disabled Veterans Outreach Program.
2. Special emphasis on employment of veterans.
3. Counseling, training, and placement of veterans on special basis.

Agricultural labor programs:
1. Services for migrant and seasonal farmworkers.
2. Farm crewleader program.
3. Consolidated Farm and Rural Development Program.

Labor certification:
1. Alien labor certification.
2. Federal contractor listing.

Other special employment emphasis:
1. Youth.
2. Women.
3. Handicapped.
4. Ex-offenders.

We are not advocating that these functions be abolished—merely that some other revenue source be found to pay for them, allowing FUTA revenue to be restored to their intended purposes. Lack of adequate funds for UC administration is a critical problem now, when claims volume is at an all-time high in many states. Diversion of these funds from their basic purpose is a poor choice of priorities.

3. Require public and nonprofit employers to pay their full costs

At present federal law requires states to cover employees of states and local government agencies and nonprofit employers. These employers—and the federal government—are exempt from FUTA and make no contribution toward administrative expenses. Moreover, in many cases they do not pay even the full cost of benefits paid to claimants based on services performed for them. As a result, the burden is shifted to private employers, who must pay higher payroll taxes to meet these so-called "socialized costs." An excellent example is the failure to reimburse for the half of extended benefits that is FUTA-funded. Federal law should require that reimbursable employers pay the full cost of benefits attributable to service performed for them. Federal law also should require employers who are exempt from FUTA to make an equitable contribution toward the cost of claims administration.

4. Convert FSC from an income maintenance program to a reemployment program

There are few examples better than FSC to illustrate Congress' reluctance to address the problems of the long-term unemployed in an effective way. Today FSC operates to provide 8, 10, 12, 13, 14, or 16 weeks of benefits to claimants who have exhausted benefits under the regular and extended benefits (EB) programs; the maximum duration fluctuates with the state insured unemployment rate (IUR), except that claimants in any state that was triggered on EB before June 1, 1982, automatically get extra weeks regardless of the unemployment rate.

This confusing hodgepodge of maximum duration requires a road map and compass to keep score—see Table on FSC Trigger Status. Moreover, 8 weeks of FSC are payable even in 5 states whose IUR is below 3%—hardly an "emergency" justifying an extension of duration. Another 7 states and the District of Columbia have relatively low IURs between 3% and 4%—yet some of them qualify for 8 weeks, some for 12 weeks, and 1 state for 14 weeks. Delaware, with a 3.37% IUR, qualifies for 14 weeks of FSC, yet North Dakota, with a higher IUR of 3.45%, qualifies for 8 weeks. This schedule does not make sense.

FSC Trigger Status
as of January 08, 1983

State/Total	16 Wks # 13	14 Wks # 24	12 Wks # 1	10 Wks # 7	8 Wks # 7		* Effective Date
ALABAMA	X						B 16 WEEK 01/16/83
ALASKA	X						B 16 WEEK 01/09/83
ARIZONA		X					B 14 WEEK 01/09/83
ARKANSAS	X						B 16 WEEK 01/16/83
CALIFORNIA		X					B 14 WEEK 01/09/83
COLORADO				X		**	B 10 WEEK 01/23/83
CONNECTICUT				X		**	B 10 WEEK 01/23/83
DELAWARE		X					B 14 WEEK 01/09/83
DIST. OF COLUMBIA				X			B 10 WEEK 01/09/83
FLORIDA					X		B 8 WEEK 01/09/83
GEORGIA				X		**	B 10 WEEK 01/23/83
HAWAII				X			B 10 WEEK 01/09/83
IDAHO	X						B 16 WEEK 01/09/83
ILLINOIS		X					B 14 WEEK 01/09/83
INDIANA		X					B 14 WEEK 01/09/83
IOWA		X					B 14 WEEK 01/09/83
KANSAS		X					B 14 WEEK 01/09/83
KENTUCKY	X					**	B 16 WEEK 01/23/83
LOUISIANA		X					B 14 WEEK 01/09/83
MAINE		X					B 14 WEEK 01/09/83
MARYLAND		X					B 14 WEEK 01/09/83
MASSACHUSETTS		X					B 14 WEEK 01/09/83
MICHIGAN	X						B 16 WEEK 01/09/83
MINNESOTA		X					B 14 WEEK 01/09/83
MISSISSIPPI	X						B 16 WEEK 01/16/83
MISSOURI		X					B 14 WEEK 01/09/83
MONTANA		X					B 14 WEEK 01/09/83
NEBRASKA					X		B 8 WEEK 01/09/83
NEVADA		X					B 14 WEEK 01/09/83
NEW HAMPSHIRE					X		B 8 WEEK 01/09/83
NEW JERSEY		X					B 14 WEEK 01/09/83
NEW MEXICO		X					B 14 WEEK 01/09/83
NEW YORK				X			B 10 WEEK 01/09/83
NORTH CAROLINA		X					B 14 WEEK 01/09/83
NORTH DAKOTA					X		B 8 WEEK 01/09/83
OHIO	X						B 16 WEEK 01/16/83
OKLAHOMA				X			B 10 WEEK 01/09/83
OREGON	X						B 16 WEEK 01/09/83
PENNSYLVANIA	X						B 16 WEEK 01/09/83
PUERTO RICO	13 Wks FSC due to 20 Wk Reg. duration						B 13 WEEK 01/09/83
RHODE ISLAND		X					B 14 WEEK 01/09/83
SOUTH CAROLINA		X					B 14 WEEK 01/09/83
SOUTH DAKOTA					X		B 8 WEEK 01/09/83
TENNESSEE		X					B 14 WEEK 01/09/83
TEXAS					X		B 8 WEEK 01/09/83
UTAH		X					B 14 WEEK 01/09/83
VERMONT		X					B 14 WEEK 01/09/83
VIRGINIA					X		B 8 WEEK 01/09/83
VIRGIN ISLANDS		X					B 14 WEEK 01/09/83
WASHINGTON	X						B 16 WEEK 01/09/83
WEST VIRGINIA	X						B 16 WEEK 01/09/83
WISCONSIN	X					**	B 16 WEEK 01/23/83
WYOMING			X				B 12 WEEK 01/16/83

* Benefits are payable for the data shown subject to an agreement being signed between the Governor and the Secretary of Labor

U.S. Department of Labor, ETA, UIS
Division of Actuarial Services
January 24, 1983

** Indicates change from Prior Notice

TRIGGER NOTICE NO. 83 - 2

STATE EXTENDED BENEFIT INDICATORS UNDER P.L. 94-566
AS OF January 08, 1983

Number "On": 21		EXTENDED BENEFIT INDICATORS 13-Week IUR	Percent of Prior 2 Years	STATUS OF EXTENDED BENEFIT Periods Beginning Date (B) Ending Date (E)
ON	ALABAMA	6.18	137	B 10-31-82
ON	ALASKA	7.16	93	B 1-23-83
	ARIZONA	4.39	179	E 10-23-82
ON *	ARKANSAS	6.28	126	B 10-3-82
ON	CALIFORNIA	5.43	136	B 1-23-83
	COLORADO	3.57	156	E 1-24-81
	CONNECTICUT	3.59	134	E 1-24-81
*	DELAWARE	3.37	90	E 7-17-82
	DIST. OF COLUMBIA	3.82	126	E 1-24-81
*	FLORIDA	2.58	140	E 1-24-81
*	GEORGIA	3.56	130	E 1-24-81
	HAWAII	3.59	116	E 1-24-81
ON	IDAHO	7.03	129	B 10-18-81
ON	ILLINOIS	5.93	136	B 3-7-82
ON	INDIANA	5.31	142	B 1-16-83
*	IOWA	4.43	136	E 10-2-82
	KANSAS	4.32	168	E 11-6-82
ON *	KENTUCKY	6.19	125	B 12-5-82
ON	LOUISIANA	5.44	198	B 1-23-83
	MAINE	4.61	104	E 7-3-82
	MARYLAND	4.32	128	E 7-31-82
	MASSACHUSETTS	4.06	118	E 6-26-82
ON	MICHIGAN	7.55	115	B 2-28-82
	MINNESOTA	4.17	140	E 7-10-82
ON	MISSISSIPPI	6.33	150	B 1-17-82
	MISSOURI	4.48	112	E 6-19-82
ON	MONTANA	5.10	120	B 1-23-83
	NEBRASKA	2.87	140	E 1-24-81
ON *	NEVADA	5.06	141	B 1-23-83
*	NEW HAMPSHIRE	2.98	139	E 1-24-81
	NEW JERSEY	4.46	103	E 6-19-82
	NEW MEXICO	4.15	150	E 11-27-82
	NEW YORK	3.96	110	E 1-24-81
	NORTH CAROLINA	4.77	132	E 10-23-82
*	NORTH DAKOTA	3.45	133	E 1-24-81
ON	OHIO	6.23	129	B 1-17-82
	OKLAHOMA	4.12	265	E 1-24-81
	OREGON	6.83	113	E 12-18-82
ON	PENNSYLVANIA	7.47	152	B 1-24-82
ON	PUERTO RICO	8.91	107	B 2-23-75
	RHODE ISLAND	5.48	109	E 10-23-82
ON	SOUTH CAROLINA	5.73	134	B 1-10-82
*	SOUTH DAKOTA	2.35	117	E 1-24-81
	TENNESSEE	4.88	111	E 9-25-82
	TEXAS	2.91	199	E 1-24-81
ON *	UTAH	5.00	160	B 1-23-83
ON	VERMONT	5.21	128	B 1-23-83
	VIRGINIA	2.47	127	E 1-24-81
	VIRGIN ISLANDS	4.14	113	E 8-28-82
ON *	WASHINGTON	6.77	129	B 7-6-80
ON	WEST VIRGINIA	8.89	166	B 4-18-82
	WISCONSIN	6.02	115	E 12-11-82
*	WYOMING	4.67	254	E 1-24-81

* State does not have 6% option in its law

U.S. Department of Labor,ETA,UIS
Division of Actuarial Services
January 24, 1983

NOTE: FSC Trigger Status on reverse side

What seems to have been overlooked in the zeal to help the unemployed is any semblance of need justifying this extension and the tax on UC benefits levied to pay for it. In many cases, UC benefits combined with other sources of public aid are more than the claimant's take-home pay while employed. For example, in Florida a claimant earning the state's average wage may actually come out ahead on UC benefits, food stamps, and other assistance (see Attachment 2). It is not hard to understand why such claimants make little effort to find employment. Extension of duration beyond the 6 months already provided under state law may merely encourage claimants to delay any serious work search, inflating the unemployment rate and adding to the federal budget deficit.

A continued FSC program is justifiable only if it is converted to a reemployment assistance program for workers with established work histories and who otherwise cannot help themselves. Paying 55 weeks of benefits to a claimant who worked only 20 weeks is a waste of scarce resources; 30 weeks of work should be the minimum requirement for FSC.

Similarly, claimants who choose to leave their jobs in a labor dispute should not be permitted to draw 55 weeks of income support. Although only a few states' UC laws overtly provide benefits to stikers, many states, by judicial interpretation, pay benefits if the labor dispute does not force the employer to close down. Equity demands that the federal government be neutral with respect to labor disputes. It should stop spending scarce resources to subsidize strikes. Federal laws governing EB and FSC should be amended to disqualify a claimant who is out of work because of a labor dispute.

Most importantly, FSC eligibility should be conditioned on participation in a reemployment program providing intensive job search assistance, as well as referral to retraining for those claimants who cannot find jobs unless their skills are upgraded. The framework is contained in the Displaced Workers Title (Title III) of the new Job Training Partnership Act, (JTPA), which encourages states to offer placement assistance and training for job losers whose skills must be updated in order to find new jobs. Title III expressly exempts participants from UC work search requirements while in approved training. In the past, few individuals took advantage of even the limited opportunities, in part because the availability of long-term UC or Trade Adjustment cash benefits discouraged claimants from accepting permanent changes in the job market. Any further extension of benefit duration without mandatory job search or retraining will encourage workers to postpone adjustment to permanent job changes and defeat the intent of JTPA.

Finally, a means test might well be appropriate for FSC eligibility. Considering that FSC is funded from federal general revenues—and considering the size of the budget deficit—a means test might well be a fair way to target the program to those with the greatest need.

5. Improve linkage between UC and employment and training programs

One fundamental objective of UC which has never been adequately achieved is to help claimants find new jobs. Claimants are required to register with the U.S. Employment Service (ES), which is financed from FUTA revenues. ES has been given numerous other missions, however, which have detracted from its ability to focus on service to UC claimants. At present, ES makes little effort to refer claimants to training programs, and efforts to teach claimants how to find jobs on their own are regarded as "experimental." Indeed, the cuts in federal administrative grants have caused states to shelve these successful money-saving programs so that staff may be used to handle the benefits claims load. Participation in intensive job search programs should be mandatory for EB and FSC eligibility. As stated earlier, FSC makes sense only if provided to individuals who are participating in job search assistance plans and/or retraining.

We now have a system in place that provides income support while claimants are in retraining. Federal law prohibits states from enforcing the work search test to disqualify a claimant who is in approved retraining. Moreover, JTPA specifically provides that a retraining program set up under the Displaced Worker Title (Title III) is approved automatically.

We strongly object, however, to diversion of revenues from the Unemployment Trust Fund to pay for the training itself. The Fund is heavily in debt, and the problem is growing daily; it is a fallacy to think that there is any money in the Fund to be used for any new expenses. Few of the nondebtor states have adequate reserves to meet existing benefits needs. The states that would most benefit from retraining have already depleted their balances, and the federal government would have to lend them money—with employers picking up the tab later in the form of higher state and federal payroll taxes. Payroll tax increases, of course, add to total labor costs and will delay expansion of employment as the economy recovers.

Perhaps an even greater issue is the question of equity. Employers accept the responsibility of paying for income support during periods of temporary, involuntary unemployment, but the cost of retraining the long-term unemployed is not a predictable business expense. It would be more equitable for society to share such costs through general revenue financing.

6. Study other employment initiatives involving UC

We need more information before we can assess the following employment proposals in the Administration budget message that contemplate changes in the UC program:

Convert FSC benefits to a wage subsidy voucher that an employer could redeem for a credit against taxes. We have reservations that this proposal may not create any new jobs and could shift unemployment among groups of the unemployed. The possibility for abuse is very real—an unscrupulous employer might tell job applicants who are in their last week of regular benefits or EB to return after becoming eligible for FSC. Finally, if the net result of the voucher would be a reduction in already scarce FUTA or state UC receipts, the Trust Fund can ill afford this proposal.

Urge the states to permit worksharing. The states already have authority to permit payment of benefits for "partial unemployment" to claimants whose work hours have been reduced 10 percent or 20 percent in lieu of layoffs. Worksharing does not encourage new jobs or retraining. It does add one more administrative function to an already overburdened system. Moreover, any employer can now shorten work hours and pay extra compensation for the reduced worktime without involving the UC system. We strongly oppose any federal standard requiring states to offer worksharing benefits, and we recommend that the Labor Department complete its study of the 3 states (California, Arizona, and Oregon) that now permit it before worksharing is encouraged as federal policy.

Encourage states to permit claimants to work part-time and keep full benefits. Again, we strongly oppose any federal standard directing states to pay benefits to claimants who work part-time. All states now disregard some earnings when claimants accept part-time work. Many pay reduced benefits (on a sliding scale) to claimants who earn up to one-half of their weekly benefits. Changing these requirements will add to the administrative burden, because forms must be changed, earnings must be monitored, etc. Moreover, we are concerned that this recommendation may lead to higher unemployment costs with no increase in employment. For example, in many states benefits are one-half of high quarter earnings. For retailers whose part-time workers are full-time over the Christman season, benefits may well be as much as their regular part-time earnings because many states compute benefits on the basis of high quarter wages. If the claimant is offered the usual part-time hours of work in January but refuses, present law provides a disqualification from benefits, and the employer will hire someone else. If the claimant can keep full benefits and work part-time, there is no disqualification, and there is a drain on the Trust Fund.

CONCLUSION

Business strongly supports the UC system, which has worked well to provide a public system of insurance against short-term, involuntary unemployment. Today the Unemployment Trust Fund is in dire financial condition. We recommend that Congress take steps to help sustain economic recovery as the best aid for the UC system, and that other changes in the federal UC laws be made to restore its integrity. These include requiring states to repay federal advances, discontinuing use of FUTA revenues other than for services to the unemployed, requiring government agencies and nonprofit employers to pay their full share of benefit costs, converting FSC to a reemployment program, improving the linkage between UC and employment and training programs, and refraining from unwise "employment initiatives" that create new federal standards for state UC programs.

It is imperative that Congress advise the states that the advances to their UC trust accounts will not be forgiven.

Finally, Congress should provide general revenue funding for FSC administration expenses, in accordance with the law establishing that program.

[ATTACHMENT 1]

ATTACHMENT ON INSOLVENCY OF UNEMPLOYMENT TRUST FUND

At present the Unemployment Trust Fund is insolvent, and the outlook is for its financial condition to deteriorate further over the next few years. Twenty states, plus the District of Columbia, Puerto Rico, and the Virgin Islands have exhausted their benefit reserves, and 6 other states have requested loans.

These jurisdictions have received federal loans totalling $10.6 billion as of December 30, 1982, in order to continue paying benefits. The Trust Fund's Federal Unemployment Account (FUA), from which loans to states are drawn, itself is exhausted, and Congress has had to appropriate approximately $7 billion in repayable general revenue advances to FUA.

In addition to the state debt, but less widely known, is the $6.8 billion in general revenue advances to the FUTA-funded Extended Unemployment Compensation Account (EUCA), which is used to pay half of extended benefits (weeks 27–39) and all of the temporary supplemental extensions from 1974–77.

Because UC benefits are financed through state and federal payroll taxes paid by employers, it is fair to say that business has outstanding liabilities to the Trust Fund totalling more than $17 billion, of which the Trust Fund has borrowed all but $2 billion from federal general revenues. These UC loans, of course, also have contributed to the federal budget deficit.

Chronic indebtedness

The present indebtedness of the Unemployment Trust Fund is a comparatively recent phenomenon. In the early and mid-1970's, 25 jurisdictions exhausted their reserves and received advances. Although many borrowing states repaid their advances, 11 of the 25 have been in debt continously since then, and 4 others repaid their loans only to borrow again a short time later. To meet the demand for loans, federal general revenues were advanced to FUA—$8.6 billion by year-end 1982. DOL forecasts that additional general revenue advances will be needed, totalling more than $24 billion at year-end 1983, $40 billion by the end of 1984.

Cause of insolvency

The simple explanation for the continuing indebtedness is that the borrowing states continue to pay out more in benefits than they are collecting in unemployment tax revenues. Unless these states balance benefits payouts and revenues, the problem will grow (thus the pessimistic DOL forecasts).

A number of factors are responsible for the continuing need for loans:

States have not adjusted their UC programs to accommodate permanent shifts in the economy.

Congress has legislated unfunded increases in maximum duration of benefits.

Congress has failed to enforce repayment provisions in federal law, allowing states to increase benefits without providing a way to pay for them.

Congress failed to require states to pay interest on federal advances received before April 1, 1982.

False expectations that loans would be forgiven were created by congressional consideration of relief proposals.

Permanent shifts in the economy

During the 1970's and 1980's, unemployment has been higher during both recession and recovery. Some states have failed to factor these changes into their UC programs. As a result, they did not pay off federal advances during years in which unemployment was declining. In addition, many of them increased their benefits even during periods of accelerating unemployment (either through automatic escalators or statutory revision), further undermining solvency.

Unfunded increases in benefit duration

In the 1970's and 1980's Congress extended maximum benefit duration on several occasions while providing inadequate funding or none at all. In 1970 Congress mandated an automatic 13-week benefit extension during high unemployment periods, payable to claimants who are unemployed after 26 weeks. These extended benefits (EB) are funded 50/50 from state and federal unemployment taxes, but many of the jurisdictions that received federal advances never adjusted their UC programs to finance the state share of the extension. Moreover, the federal share was never fully funded, either, and, Congress has had to appropriate general revenues as repayable advances to EUCA to cover the federal share.

In 1974 Congress enacted a temporary program providing a supplemental 13 weeks of benefits (Federal Supplemental Benefits, or FSB), payable to claimants who exhausted the 39 weeks of regular and extended benefits. This supplemental compensation originally was chargeable wholly to EUCA. Because EUCA was depleted, Congress once more had to advance general revenues.

As of year-end 1982, outstanding general revenue advances to EUCA for EB and FSB totalled $7.03 billion. DOL forecasts that this debt will be repaid in 1986, mostly because of the FUTA increase enacted in 1982.

In 1977, When Congress renewed FSB and extended the maximum combined duration of regular benefits, EB, and FSB to 65 weeks, the supplemental benefits paid after the renewal were funded directly from general revenues. That supplemental extension expired in 1978, but in 1982 Congress enacted the present, temporary supplemental benefit extension of 8 to 16 weeks, again funded directly from general revenues (Federal Supplemental Compensation, or FSC). FSC expires March 31, 1983.

Although their impact has never been measured, all of these benefit extensions, including those funded from general revenues, may be presumed to have increased the costs of the UC program by more than the amount actually paid out as extended or supplemental benefits. Economists have documented that claimants on average will draw more weeks of benefits as the maximum benefit duration is extended, because claimants know they may postpone serious search for new employment. Thus, merely by extending maximum duration, Congress has added an unfunded burden to the cost of regular state benefits.

Failure to enforce repayment provisions

Federal law includes a provision for an automatic FUTA rate increase if states fail to repay UC loans within 2 years, but on several occasions Congress has bowed to political pressure from officials in borrowing states and suspended it or limited its application. For example, states that first borrowed during 1972 through 1975 were given until November, 1979, to repay without being held in default. Suspension of this repayment provision not only prevented collection of new federal revenues to reduce the balance of loans, but also shortcircuited the indirect but more important consequence of the escalating FUTA rate—the intrastate political pressure on state officials to restore solvency through benefit and tax adjustments.

In 1981 Congress limited the repayment requirement by enacting legislation freezing the FUTA increase at a relatively low level in defaulting states that meet certain tests (benefiting 11 debtor jurisdictions in 1981 and 1982). The tests were conceived as a means of spreading out repayment of existing debt as an incentive for states to take action to restore solvency, but the political process considerably weakened the originally-proposed solvency requirements. For example, to qualify for the freeze, states may not increase benefits or reduce tax efforts, but increases in benefits pursuant to automatic escalators are disregarded. To qualify in 1983 and 1984, a state must also have (1) repaid any amounts borrowed after September 30, 1981, and (2) imposed an average tax rate at least equal to its cost/benefit ratio over 5 years. Few states have taken action to meet these tests, and political pressure is growing to modify them.

Interest-free loans

A major factor contributing to chronic insolvency was the attractivenss of borrowing. Advances were interest-free, and good money management practices (as well as practical politics) dictated the use of interest-free loans rather than unpopular tax increases to pay for benefits.

In 1981 Congress enacted legislation requiring states to pay interest up to 10 percent on advances received beginning April 1, 1982, unless repaid within a relatively brief period. Moreover, states were forbidden to use state unemployment taxes, directly or indirectly, to pay the interest. Political pressure from state officials, however, led to 1982 legislation deferring payment of a portion of the interest owed, during periods of high unemployment. Pressure to waive or defer the interest is expected to grow in 1983.

False expectations

The last major contributing factor is the psychological impact of congressional debate over proposals to forgive loans or adopt a cost equalization system of financing through which fiscally sound states would subsidize the debtor states. While these proposals were not enacted, they were given serious consideration and were widely viewed as likely to be enacted. Not only did the debtor states receive the wrong signals, but some states may have delayed taking corrective action to strengthen their case for federal relief.

CONCLUSION

On the whole, easy access to loans has contributed to the present insolvency of the UC program. The opportunity to borrow has allowed legislators to yield to political pressure for higher benefits without having to face the political reaction created by a tax increase. While short-term borrowing can make economic sense by avoiding excessive accumulation of reserves in good years and payroll tax increases during economic downturns, the temptation to put off repayment of UC loans and to finance benefit increases through loans has proven irresistible for Congress as well as many state legislatures. Moreover, Congress has not enforced the automatic repayment law. The lesson is plain: Continued borrowing from general revenues to meet present benefit obligations risks delaying the day of reckoning until a time of relatively less favorable economic conditions.

APPENDIX

Automatic Recoupment Provision

If a state that has received UC loans is in debt on January 1 of two consecutive years and fails to repay its entire balance by November of the second year, the state is considered to be in default on its loan, and the automatic repayment provision is activated, raising the net FUTA rate for employers in the defaulting state. The rate increases in .3 percent increments for each year the state continues in debt, applicable to payroll beginning January 1 of the second year. The revenue from the FUTA rate increase is applied to reduce the state's outstanding loan balance. The .3 percent increments continue until the loan is repaid or the total FUTA rate reaches 3.4 percent (6.2 percent beginning January 1, 1985). Additional FUTA rate increases may be applied in states in default three or more years.

For example, a state that borrows in October, 1982, is in debt on January 1, 1983, and January 1, 1984, and fails to repay its entire balance by November, 1984, would be in default. The FUTA rate applicable to 1984 payroll would increase by .3 percent, and then increase in .3 percent increments until the loan is repaid or the maximum rate is reached.

The Omnibus Budget Reconciliation Act of 1981 freezes the incremental increases after 2 years if a state meets certain tests. For tax years 1981 and 1982, a state qualifies for the "cap" if it has taken no action that results in either a net tax reduction or a net decrease in solvency. In tax years 1983 through 1987 a state must also impose an average tax rate at least equal to its benefit cost ratio for the 5 preceding years, and the balance of advances on September 30 of each year beginning in 1983 may not exceed the balance on September 30, 1981 (or the balance on the third preceding September 30 in subsequent years).

The Tax Equity and Fiscal Responsibility Act of 1982 permits states to repay the equivalent of the FUTA increase out of experience-rated state UC tax receipts.

FEDERAL ADVANCES TO STATE UNEMPLOYMENT TRUST ACCOUNTS

[Dollar amounts in millions]

State	Total outstanding debt, Dec. 30, 1982	Oldest advance outstanding	Payment due: November—	Repayment status	FUTA rate[1]	
					1982	1983
Arkansas	$77.0	1980	1983	Default	1.0	1.4
Colorado	4.4	1982	1984		.7	.8
Connecticut	270.5	1972	1983	Default	1.4	1.8
Delaware	53.9	1975	1983	Default	1.3	1.7
District of Columbia	56.9	1975	1983	Default	1.3	1.7
Illinois	2,069.0	1975	1983	Default	1.3	1.7
Iowa	63.4	1982	1984		.7	.8
Kentucky	121.4	1981	1983		.7	[2].8
Louisiana	102.4	1982	1984		.7	.8
Maine	20.9	1975	1983	Default	[3]1.6	2.0
Michigan	2,185.8	1980	1983	Default	1.0	1.4
Minnesota	288.0	1980	1983	Default	1.0	1.4
Missouri	89.8	1982	1984		.7	.8

FEDERAL ADVANCES TO STATE UNEMPLOYMENT TRUST ACCOUNTS—Continued

[Dollar amounts in millions]

State	Total outstanding debt, Dec. 30, 1982	Oldest advance outstanding	Payment due: November—	Repayment status	FUTA rate[1]	
					1982	1983
New Jersey	520.7	1975	1983	Default	1.3	1.7
Ohio	1,658.1	1980	1983	Default	1.0	1.4
Pennsylvania	2,145.3	1975	1983	Default	1.3	1.7
Rhode Island	101.7	1975	1983	Default	1.3	1.7
Texas	142.9	1982	1984	....	.7	.8
Vermont	31.0	1974	1983	Default	1.3	1.7
West Virginia	144.2	1980	1983	Default	1.0	1.4
Wisconsin	412.9	1982	1984	....	.7	.8
Puerto Rico	65.6	1975	1983	Default	1.3	1.7
U.S. Virgin Islands	2.9	1975	1983	Default	1.3	1.7
Total	10,628.9					

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[1] Tax rate (percent) applicable to 1982 and 1983 payroll. 1983 rate assumes that State does not meet cap criteria.
[2] 1983 FUTA rate will be 1.1 percent if State fails to repay by November 1983.
[3] Elected not to take advantage of cap.

[ATTACHMENT 2]

THE VOICE OF BUSINESS

(By Richard L. Lesher, President, Chamber of Commerce of the United States)

JOBLESS BENEFITS OUTSTRIP PAY FOR SOME AMERICANS

WASHINGTON.—Recently I suggested that high unemployment and welfare benefits have made joblessness an increasingly attractive alternative for many Americans.

This argument prompted many reactions, most of them favorable. But I was roundly criticized in some quarters for claiming, according to the critics, that we have high unemployment today because the unemployed simply prefer not to work.

First, let's be clear about what I did and did not say. I did not say that the vast majority of jobless Americans have chosen this condition. There is no question that most desperately want to work. I did say, however, that double-digit unemployment is caused by many factors, including the recession; excessive taxes and regulations that have strangled business activity; unreasonable wage demands by labor leaders which have helped price many of our products out of world markets; and finally, the fact that in recent years we have pushed unemployment and welfare benefit levels so high that joblessness has become a preferable and, in some cases, a more profitable alternative to work.

As evidence of this, consider the example of a typical Florida family of four with a weekly income of $250. (I am grateful to the Florida Farm Bureau Federation for providing me with this information.) If the wage earner in this case were laid off from his job, he and his family would receive the following monthly income and benefits:

Unemployment compensation	$537.50
Food stamps	151.75
Housing and utilities assistance	333.35
School breakfasts and lunches	70.40
Energy assistance (approximate)	50.00
Total unemployed monthly income	1,143.00

In other words, this worker while unemployed receives a tax free monthly income that is actually greater, six percent greater, than his salary on the job. Moreover, his jobless income and benefits are tax free while the salary is not. This makes the "unemployment premium" that much greater.

In fact, once taxes are taken into account, this $250 per week worker would have to find a job with a weekly gross pay of $312 in order to match in take-home pay what he gets by being unemployed.

In relating this example I am not passing judgment on whether current unemployment benefits are too high or too low in terms of what it takes to provide for a family of four. But simple common sense about human motivation suggests that a society based on a system of incentives must reward those who work at a higher level than those who don't, regardless of whatever misfortune pushed the latter group into that condition.

Unemployment is a personal tragedy for millions of Americans. But for others it is a matter of choice—and that choice is draining our economy of precious resources that should be in the hands of businesses and consumers so that jobs can be created for all those who do want them. This a national tragedy that no one talks about.

Chairman **Ford**. Let me thank you very much, National Chamber of Commerce. I missed the earlier part of the testimony.

Is it correct that you all are in opposition to the Federal supplemental compensation program being extended for a period of 6 months, as proposed by the administration?

Mr. **Oxfeld**. It would be fair to say that we are not recommending that. However, we recognize the political reality, which is that it is all but certain to be done.

Chairman **Ford**. I am just trying to get it clear. Did you state that you are in opposition or do you support it?

Mr. **Oxfeld**. Our policy is that 39 weeks of regular and extended benefits ought to be the limit of what unemployment insurance provides, and therefore we would not recommend that there be such an extension. However, we recognize the political reality that there is going to be one, and we recommend that you do a better job than——

Chairman **Ford**. But as of March 31 of this year, the Federal supplemental program will expire. I was trying to get for the record whether you oppose the extension, whether it is 6 months or a different version of what the administration is supporting, or do you oppose it outright?

Mr. **Oxfeld**. We would oppose outright an extension.

Chairman **Ford**. I am saying I missed that part of it. I am not asking what you would do. What did you state for the record here today? Are you in opposition to it?

Mr. **Oxfeld**. We oppose a simple extension of the FSC program as presently constituted.

Chairman **Ford**. Whatever the simple extension would be?

Mr. **Oxfeld**. A continuation of the program, changing the expiration date to another time, to a later time, we would oppose that. We do oppose that.

Chairman **Ford**. So you oppose any extension to a later time, you mean later than March 31?

Mr. **Oxfeld**. That is correct.

Chairman **Ford**. Mr. Campbell.

Mr. **Campbell**. Thank you, Mr. Chairman.

Let me pursue that just a minute. I understand what your testimony was, that you, in effect, are saying that there is a better way, that the FSC extension should be tied to a retraining requirement, use a stipend for retraining, something along that line. Is that basically where you are coming from?

Mr. **Lotocki**. In addition to job search requirements.

Mr. **Campbell**. In addition to the job search requirements. Now, also, when you say you are opposed to just the blanket extension, there are those who have called for a longer extension and across the country. There are others who have called for various levels of extensions, depending upon the rate of unemployment in a given area. In one area the number of weeks would be lesser and so forth.

What would your feeling be along those lines if, assuming we are going to try to utilize the extension, as to whether we should extend it across the board or whether we should try to target it according to the level of unemployment?

Mr. **Whiteley.** I think one of our positions is that we are opposed to a national trigger type of mechanism which applies uniformly across all States whether they need it or not. It does not make a lot of sense to have a program in effect for 65 weeks or whatever in a State where the IUR is very low where another State with a very high IUR really may very well need it. It does not make too much sense to extend that program automatically across the board. There should be triggers on specific States.

Mr. **Campbell.** So you are opposed to a national trigger extension to a set date, is that correct?

Mr. **Oxfeld.** A more intelligently triggered system would be a vast improvement over——

Mr. **Campbell.** I was just trying to get down exactly where we were opposed.

Mr. **Oxfeld.** Something like what the administration proposed as a new set of triggers makes much more sense than this 12, 14, 13, 16 weeks or whatever.

Mr. **Campbell.** I have not looked at a lot of the things that you raised, but I found that there were a couple of points that needed to be explored a little bit further. The requirement of public and nonprofit employers to pay their full costs, you used a figure of $100 million in the total administration of it and they were not paying their fair share of it and they were not funding their fair share of it. Do you have any figures or estimates on that?

Mr. **Oxfeld.** That $100 million figure was supplied by the U.S. Labor Department last year.

Mr. **Campbell.** That is your overall administrative cost?

Mr. **Oxfeld.** No; that would be the administrative cost of the reimbursable employers which are now being paid by the for-profit employers.

Mr. **Campbell.** So the nonprofits are riding $100 million right now in administrative costs?

Mr. **Oxfeld.** Out of the $2.3 billion for administrative costs, about $100 million represent costs which reimbursable employers are not reimbursing.

Mr. **Campbell.** I understand that now. OK. Let me ask you this. When you talk about requirement of the States to repay any advances with interest, is it your feeling that it would be unfair to the rest of the country for the States who have not borrowed, have kept their house in order? Would it not be unfair to them if the States were forgiven? Would that not just be a supplement to those States from the rest of the country?

Mr. **Whiteley.** Yes; those who have lived up to their fiscal responsibilities and have arranged for repayment, took the hard course, and kept their benefits in control and raised taxes certainly should not be made to feel foolish by forgetting the loans to others.

Mr. **Campbell**. I notice you have reservations about the voucher system in your testimony. I am sure that you heard some of the other questions and answers given on the voucher system. I think that we are trying to explore various possibilities of literally linking retraining or job search or something to the extension.

I kind of looked upon the voucher as one of the tools that we had, and yet you have reservations about it. You said that you are concerned with displacement. We have had testimony that the cost to the employer if they abuse that by the experienced rating changing would be substantial and would be a deterrent for that sort of thing.

We have also had others testify that small business especially or others with marginal jobs may create jobs on that basis.

Is your reservation opposition or is it just a reservation on this?

Mr. **Oxfeld**. The reason we have used the word "reservation" is because we have not taken a final position on this proposal. We have not received enough information about how it would operate in order to do that. As you know, it was only just a few days ago that the administration announced that it would recommend this voucher system. However, every indication up until now has been almost uniformly negative about how it would operate.

In our view while there is a very real problem for a small business in terms of meeting labor costs, this is not in our view the most effective way of addressing the higher and higher labor costs. In fact, the increase in FUTA last year is an example of an added burden on a small business to meet payroll costs. Anything which is financed through a payroll tax makes it harder and harder to employ someone, and that is particularly a problem for a small business.

We are sensitive to that. The chamber is primarily composed of small business members, and many of them advocate a general jobs tax credit which would help them offset some of these payroll costs.

We are concerned also, though, that the unemployment insurance system be adequately funded and that all employers within that system pay their own way. What we would recommend is that Congress remedy some of the impediments to employment such as the Longshoremen and Harbor Workers' Act, for example, which create direct labor costs which are unnecessary and counterproductive, and that would be a better way of relieving that labor burden on small business.

Mr. **Campbell**. Well, let me ask you this. Two things: one, we are looking into a linkage to a job search. You want some incentive to go into retraining. Is it not an incentive, though, for a person who can get 32 weeks to go into a program and get a job as opposed to staying out with 16 and not doing anything?

Mr. **Oxfeld**. If there were jobs.

Mr. **Campbell**. It depends on where they are. And you are talking about job creation. I think your testimony earlier said that the best thing that we could do is not interfere with the economic recovery, and I concur with that. But certainly there are major pockets of unemployment, and there are major areas, and the national rate is high; there are also major areas of this country with very low unemployment, which you cite in your testimony.

The encouragement to seek jobs in other areas you do not think would be enhanced by the voucher?

Mr. **Whiteley**. My feeling on that is generally that it is asking an awful lot for a person to pick up everything and completely relocate in order to get a job if he has any possible hope of getting a job where he is.

I think history has shown in the trade adjustment program where they had a relocation program, it was not very active. Even in the States when I was an administrator we tried to encourage people to use it. But it is just asking so much of a person to give up their entire surroundings to relocate for a job.

Mr. **Campbell**. I agree with you. I think that is the last thing they should be asked to do as long as there is a possibility. When there is no possibility, though, then you have a different question. And in some areas and skills we have problems.

Mr. **Whiteley**. It is convincing that person that it is an impossibility. People are extremely reluctant to admit that things are not going to get better. Unfortunately, we are all optimists.

Mr. **Campbell**. I hope we are all optimists.

The other thing that you mentioned is the labor dispute, and I concur with you there. I do not think we ought to be carrying that. What about those who voluntarily leave their jobs?

Now, you have said that you do not think that they ought to be eligible. Some States have had a program where they merely disqualify people for a period of time, not for the total. Do you think those people should be disqualified for the total because they left a job and the rules of the States are different?

Do you follow my question?

Mr. **Oxfeld**. I am not sure exactly.

Mr. **Campbell**. State X has a requirement that if you voluntarily leave your job, then you are ineligible, period. But State Y has a requirement that if you voluntarily leave your job, then you are disqualified for 5 weeks or 4 weeks on the front end of unemployment. Should both disqualify you for extended benefits or for any other program?

Mr. **Oxfeld**. Federal law already contains a provision that disqualifies people from extended benefits who voluntarily left their job. In the view of employers, anyone who voluntarily leaves their job

Mr. **Campbell**. Federal law says that they are disqualified for extended benefits if they are disqualified under State law for existing benefits. My question was, Would you treat those whose State law does not disqualify but merely penalizes or disqualifies for a shorter period of time the same as you would those States who disqualify completely?

Mr. **Oxfeld**. Neither. There ought to be a Federal standard governing federally funded benefits, extended benefits and Federal supplemental compensation that would govern when someone voluntarily left their job. That would be one option.

Another option would be what you raised. I do not think anybody has previously suggested a Federal definition, but we would be glad to help develop one.

Mr. **Lotocki**. I would agree that perhaps some sort of definition of good cause or whatever for leaving a job should be established or what constitutes grounds for disqualification.

But I think—and I may not be speaking on behalf of the U.S. Chamber on this, but I am speaking on behalf of a public employer and a lot of experience with unemployment compensation claims—that I feel that if a State has made a conscious decision that a person was unemployed as a result of their own fault, and whatever form that disqualification might take, whether it be only a deferral of their or a postponement of their receipt of benefits or an outright disqualification until reemployed, I think that should be enough of a basis for the denial of both EB and FSC.

Mr. **Campbell**. All right.

Now, let me ask—well, I would defer to the chairman, but let me ask one other area. I am trying to go through the areas in your testimony.

Now, the means test you mention as a possible way, a fair way to target the program for those with the greatest need. Here you are speaking of a means test such as you would apply under food stamps or any other thing?

Mr. **Oxfeld**. That is right.

Mr. **Campbell**. You have not given any thought to what type of a means test?

Mr. **Oxfeld**. No; but we would be glad to work with the subcommittee in helping to develop one.

Mr. **Campbell**. OK. Thank you very much.

Mr. **Oxfeld**. Only for FSC.

Mr. **Campbell**. I understand [illegible]. We are speaking of FSC. We are not speaking of UC, [illegible] not speaking of EB. We are speaking of FSC.

Mr. **Oxfeld**. You will have [illegible] on us, but the business community believes very strongly [illegible]re should not be Federal standards or a means test [illegible], the regular State benefits, even when we think they might [illegible] for employers.

Mr. **Campbell**. So does this Member of Congress.

Chairman **Ford**. I would like to thank the representatives of the National Chamber of Commerce, Mr. Whiteley, Mr. Lotocki, and Mr. Oxfeld for your testimony before the committee.

And at this time if there are no further questions, the subcommittee will adjourn until tomorrow morning at 10 when we will reconvene to hear the Governors and take up the other witnesses on the unemployment compensation benefits.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned, to be reconvened at 10 a.m., Wednesday, February 9, 1983.]

UNEMPLOYMENT COMPENSATION ISSUES

WEDNESDAY, FEBRUARY 9, 1983

House of Representatives,
Committee on Ways and Means,
Subcommittee on Public Assistance and
Unemployment Compensation,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

Chairman **Ford**. The Subcommittee on Public Assistance and Unemployment Compensation will come to order. Today, the Subcommittee on Public Assistance and Unemployment Compensation will continue its hearings on extending the Federal supplemental compensation program and the solvency of the State unemployment trust fund.

Our first witnesses today, representing the National Governors Association are the Honorable James J. Blanchard, Governor of Michigan, and the Honorable Dick Thornburgh, the Governor of Pennsylvania.

I want to welcome both of you to the subcommittee and give a special welcome to our former colleague, Governor Blanchard, who served with us. As a matter of fact, we were members of the same class here in the Congress, and we are delighted to have you back to the Congress and especially before the Subcommittee on Public Assistance and Unemployment Compensation.

I would like to yield to any of the subcommittee members for any opening remarks they would like to make. But the Chair, once again, would like to express his appreciation for the two Governors representing the Governors Association coming before this subcommittee, and hopefully, after hearing their testimony today, the committee can respond in a favorable way to assist the States that are in trouble at this time.

Mr. Campbell?

Mr. **Campbell**. Thank you, Mr. Chairman. I, too, want to add my welcome to that of the chairman to the two Governors coming. My colleague, Governor Blanchard, who is back with us, we welcome you back into the frying pan and out of the fire. [Laughter.]

So we look forward to your testimony.

Chairman **Ford**. Mrs. Kennelly?

Mr. **Kelley**. I would just thank both Governors for coming.

Chairman **Ford**. Mr. Moore?

Mr. **Moore**. It is good to have you back.

Chairman **Ford**. Mr. Thomas?

Mr. THOMAS. Ditto. [Laughter.]

Chairman FORD. At this time, the Chair will recognize Governor Blanchard.

STATEMENT OF HON. JAMES J. BLANCHARD, GOVERNOR, STATE OF MICHIGAN, ACCOMPANIED BY S. MARTIN TAYLOR, MICHIGAN DEPARTMENT OF LABOR

Governor BLANCHARD. Mr. Chairman and members of the subcommittee, I am Jim Blanchard, now Governor of Michigan, your former colleague. I would like to thank this subcommittee for the opportunity to express my views on problems facing the people of Michigan and the negative impact of certain Federal unemployment compensation laws, as they relate to our State.

Needless to say, many, many States are adversely affected by high unemployment, social and human and financial cost debt, and are grappling with some very difficult unemployment compensation questions. And I think Governor Thornburgh will be testifying generically about the effect of those on all of our States.

As representing the NGA, I am going to be talking this morning in particular about a State like Michigan which has enacted a major unemployment compensation reform but still finds itself in extremely difficult straits, and there are businesses especially in very difficult situations.

I should say that I bring a renewed respect for the position of a Member of Congress, having been away a few months and having looked at the kinds of problems we are dealing with in this country from the point of view of a Governor, and what oftentimes seems to be a different world than I recall serving in Congress. And I have a renewed respect for the tremendous power and influence you wield over the fortunes of the people of my State and of our country.

And I would like to share with you a moment some of the grim statistics that face the people of Michigan in our industrial heartland of our great country.

In January of this year, the unemployment rate in Michigan was the highest of any State in the Nation at 17 percent; more than 700,000 people are out of work, and those are the ones we count. We have more unemployed people than some States have people.

Unemployment has been over 10 percent for 37 consecutive months, and you are familiar with many of the causes; not just generalized recession but dislocation because of global competition. But motor vehicle production, originally the backbone of Michigan's economy, is at 40 percent of the levels of 1978 and is at its lowest level in 20 years. Unemployment in Michigan's upper peninsula is 22.8 percent. The rate among black youth throughout our State is at a staggering 61.8 percent.

Now, because of our large unemployment, Michigan faces severe budget problems, and this year our projected budget deficit is at $900 million. That is $900 million out of a budget of $4.5 billion. If Michigan's unemployment were at the national average we would have a manageable deficit, but because it is not, I have had to recommend to the people of Michigan and the Michigan legislature that we adopt expenditure reductions of $225 million, and that we raise taxes—the income tax, 1.5 percent—to generate another $665 million.

Now, this problem of unemployment obviously poses other costs as well as the obvious human and social costs. For example, the Michigan unemployment compensation trust fund has borrowed $2.3 billion from the Federal Government since 1980 to continue paying benefits. And because of action in 1981—as I recall, the Reconciliation Act which established interest charges in our borrowings from the Federal Government—our interest charges in Michigan now are currently $216,000 per day.

This represents, obviously, an additional burden on our State. Now, Michigan's State budget did receive some relief from these interest charges in last year's tax bill, and we are grateful. However, Michigan's businesses are, at this point, still forced to bear the burden of these interest charges, and it is really a tax on our businesses at a time when most businesses can ill afford it. In fact, it comes at precisely the opposite time for any reasonable chance of recovery. We simply cannot afford to pay it.

I am going to summarize and be very brief, but my full testimony is before you, and I would hope that you would make that part of the record.

Chairman **Ford**. It will be made a part of the record.

Governor **Blanchard**. The question, of course, is what can you and I do about this? What is the role of the State, what is the role of Congress and the President and the Federal Government, businesses, workers.

Well, recently in Michigan, I think in all honesty to some degree because of the prodding Federal legislation and the necessity of dealing with our economic problems in a cooperative way, we had a strong business labor coalition develop in which they were able, along with State government, to adopt an unemployment compensation reform law in response to these high levels of unemployment.

This reform has been widely heralded as one of the major unemployment compensation reforms in the country. The Wall Street Journal has praised Michigan for stepping up to the challenge, and I might add that I cannot take any credit for this. It was done before I was sworn in. But it was certainly a wonderful present from the previous governor and the legislature in dealing with a very difficult problem. It is a substantial reform which is intended to put Michigan's unemployment compensation system on a self financing basis.

Over the next 4 years, $3.6 billion in new employer taxes and employee benefit reductions will be realized through that legislation. Michigan's reforms will raise an additional $530 million this year alone through benefit reductions and tax increases on our businesses. This amounts to an increase of over 80 percent in available revenues for 1983.

In other words, our reforms almost doubled the solvency of Michigan's system. It is important to note that this action, of course, occurred during the most severe economic downturn since the 1930's.

However, even with these dramatic changes in Michigan's benefit financing system, high levels of unemployment will necessitate additional trust fund borrowing. Interest charges will continue to accrue, and Federal penalty taxes will continue to escalate. This is because of Michigan's inaction, but because of extraordinary levels of unemployment, and because I think laws previously adopted were unnecessarily rigid to allow relief when a State went forward with a major reform.

Because when Congress passed the Omnibus Budget Reconciliation Act of 1981, interest charges and a FUTA cap provision were established. Both of these concepts were established to encourage States to modify their systems to bring them in line with their costs, as you know. However, even with drastic changes in Michigan's law, the severe economic conditions will cause Michigan to be subject to the interest and the FUTA penalties.

Consequently, these provisions—and I think most governors would agree—need to be reexamined to encourage States to change their financing systems if they are insolvent and to suspend interest penalties and escalating FUTA taxes if certain criteria are met, and I think the criteria need to be met and need to honestly measure whether a State is doing the job in bringing about fiscal reform.

These criteria are explained in my full testimony. But I think if this Federal relief concept is adopted not only will it be an extension of Congress' original intent, but I think it will also be an acknowledgement of the effects of high levels of unemployment in many areas of our country. In return for States demonstrating their own fiscal responsibility, they will be receiving temporary relief.

I am also urging, in response to our prolonged recession, that the expiration date for Federal supplemental compensation be extended to December 31, 1983. I am opposed to changing FSC qualification requirements as well.

Mr. Chairman and members of the committee, we need your understanding. I think we are hearing and learning from all around the country that the problem of unemployment is much greater than people had anticipated these past few years. It is no longer simply a matter of Michigan or Ohio or Pennsylvania. The States from Colorado to Texas are borrowing from the Fund, State treasuries are being depressed to have to pay interest at a time when they are having to raise taxes and cut spending, and there is probably not a State in the country that I know of that is not in a real fiscal jam right now, as Governor Thornburgh can outline.

The fact is I think the alternative criteria that I have proposed for the framework that Governor Thornburgh will discuss is a logical, reasonable extension and a response to our current problems of unemployment. I think everyone who has looked at Michigan's response believes we have done our share to address the problems of trust fund insolvency. We now need your help and your understanding, as I mentioned.

In 1932 during the Great Depression the principle was established that the Federal Government should help people and regions in distress. If the current unemployment compensation law, the one adopted in 1981, is left unamended, the Federal Government will have established the opposite principle.

We—you—would have established the principle that States with high unemployment and businesses located in States with high unemployment should be penalized and taxed rather than temporarily assisted. Obviously, that makes no sense at all, and I think it is time that you help us stop this injustice before anymore harm is done.

Thank you.

[The prepared statement of James J. Blanchard follows:]

STATEMENT OF JAMES J. BLANCHARD, GOVERNOR, STATE OF MICHIGAN

Mr. Chairman, members of the committee, my name is James J. Blanchard and I am Governor of the state of Michigan. I would like to express my appreciation for the opportunity to present my concerns about the problems facing the long-term unemployed in Michigan and the negative impact of current federal interest penalties and automatic loan repayment procedures as they relate to Michigan's chances for an economic recovery.

In order to evaluate the significance of the issues that will be addressed by this Subcommittee on Michigan, I believe it is essential that you understand Michigan's current economic situation.

The distressed automobile industry and the resulting impact on Michigan have received national attention, but I do not believe that the nation realizes the severity of the unemployment depression that encompasses the state of Michigan. The Michigan unemployment rate was 17 percent in January 1983 and has been in double digits for every month since 1980. In that thirty-seven month period, Michigan has had the highest state rate of unemployment in all but five of those months.

The auto industry has always been sensitive to the cycles of the national economy. Consequently, Michigan expects the recession/recovery cycle, where unemployment climbs sharply for a period of time and then is followed by a vigorous recovery. However, the events which began with energy crisis of the mid-seventies and which were exacerbated by: interest rates, foreign competition, and the lack of consumer demand have had a prolonged, and permanent, effect on the auto industry. In 1982, motor vehicle production was the lowest in 20 years and more than 40 percent below the output levels of 1978.

After three consecutive years of severe recessionary conditions, the state has lost four hundred thousand jobs. Because of the pervasive nature of the unemployment depression in Michigan, nearly every resident and business has been affected. In 1982, the number of jobless averaged 664,000. These levels of unemployment mean that in Michigan's labor force nearly one out of every six is unemployed. Manufacturing employment has declined by almost one-fourth and construction by almost 40 percent between 1979 and 1982.

This job loss has dislocated many workers in all areas of the state. In November, more than half of the unemployed workers are of prime working age 25–44 and more than two-thirds are male. The employment situation of females, and minorities has seriously worsened. For 1982, the female unemployment rate was 15.1 percent, the black unemployment rate was 32.8 percent and the unemployment rate of black youth was a staggering 61.8 percent. Major areas within the state have also been subject to the severe impact of the recession. Michigan's Upper Peninsula, where labor market conditions have seriously deteriorated, in December had an unemployment rate of 22.8 percent. The second highest unemployment rate was in Flint with 22.0 percent.

Since the late 1930's, the initial level of protection for people who lose their jobs in this country has been the Unemployment Insurance (U.I.) program. Because of the highly cyclical nature of Michigan's economy, it has played a critical role in maintaining some stability in the state's work force. The magnitude of the recession which began in mid-1979 and the corresponding unemployment has had a tremendous impact on Michigan's U.I. contributions, benefit expenditures, and federal borrowing. Currently Michigan's indebtedness is $2.3 billion.

As of now, the interest charges alone on the funds Michigan has borrowed since April 1, 1982 are accruing at almost $2.50 per second, or approximately $216,000 per day. Clearly, the state faces an almost insurmountable problem in trying to simultaneously develop a solvent trust fund, repay federal advances, and pay interest charges.

Since 1978, Michigan has ranked the highest in the maximum tax rate and the average tax per employer. Michigan ranks eighteenth highest in replacing lost wages, despite the fact that Michigan had the second highest average weekly wage in the country. It is important to note that the purpose of unemployment compensation is to provide income maintenance. The fact that Michigan ranks eighteenth in wage replacement as compared to second in wages is a clear indication that Michigan is not overly generous.

During 1978, Michigan compensated individuals for 4.4 million weeks of unemployment. The number of weeks compensated has steadily increased since 1978: 6.2 million in 1979 (40 percent), 11.5 million in 1980 (158 percent increase), 7.7 million in 1981 (74 percent increase) and 10.2 million in 1982 (129 percent increase).

In order for Michigan to have balanced benefit expenditures with employer taxes in 1982, the average benefit check would have been no more than $58, which would have replaced less than 16 percent of lost wages.

The principal reason for Michigan's debt is embarrassingly simple: unemployment. There have been independent studies conducted by private research organizations which demonstrate that neither eligibility standards not absolute benefit levels are the reason for high state cost. Rather the level of unemployment is the single most statistically significant factor. In 1978, Michigan had its last "good year" of unemployment when the unemployment rate was a comparatively minisule 6.9 percent. The comparison is made to 1978 because the 6.9 percent unemployment rate is the rate that is now causing some states to borrow!

In spite to Michigan's catastrophic levels of unemployment, Michigan has made extaordinary financing reforms. At the end of 1982, legislation was enacted which demonstrates the state's repsonse to this tremendous burden. Effective January 1 of this year, Michigan employers will have a maximum tax rate of 10.5 percent which will be increased over three years to a maximum of 12 percent. The state taxable wage base was increased from $6,000 to $8,000 and will continue to rise by $500 each year. Michigan employers were not the only constituency contributing to the solution. Organized labor made benefit concessions which will result in $1.1 billion in savings to the Michigan system. These sacrifices include: freezing maximum benefit levels, benefit reductions for most claimants, and eligibility modifications which will make it significantly more difficult to establish minimum qualifying requirements.

The net effect of Michigan's reforms was to raise an additional $530 million in 1983 alone through benefit reductions and tax increases. This amount represents an increase of over 80 percent in available revenues for 1983. In other words, these reforms almost doubled the financial condition of the system in one year alone.

It is important to note that this action occurred during the most severe economic downturn since the 1930's. The determination of both business and labor to address the problem of insolvency, at this time, is a tribute to their responsibility. The severity of Michigan's problem with trust fund insolvency and the state's fiscal response warrants federal consideration.

Current high levels of unemployment present an almost insurmountable problem for Michigan and a number of other states in maintaining U.I. trust fund solvency. Even with this unprecedented action, Michigan's extraordinarily high levels of unemployment will result in additional federal borrowing.

It is critical that the Federal Government acknowledge the problem of debilitating levels of unemployment and provide some relief to those state that develop responsible solutions. Most importantly, it must be recognized that states cannot alone shoulder the financial burden that was in part created by decisions and policies at the national level. The concept of relief I am proposing has two basic concepts. First, the relief must encourage states to modify their existing unemployment insurance law to respond to the growing problem of deficits. Second, in those states that have demonstrated such fiscal responsibility, federal penalities, i.e., escalating FUTA taxes and interest charges should be suspended in order to give states the opportunity to recover from the devastating effects of the current economic crisis.

In accordance with the concept of federal relief, I am proposing that federal legislation be enacted which would, if certain criteria are met, suspend federal interest charges attributable to Trust Fund loans and increasing FUTA offset credit reductions in all states that qualify. Specifically, I am proposing the following criteria which would require each state to modify their existing benefits financing system in order to qualify for federal relief.

First, unemployment tax revenues must be increased by a certain amount, for example, 15 percent above the revenues which would have been generated, had the state's law not been changed; and

Second, a state whose average weekly benefit amount is above the national average must meet two of the following: (A) The state must freeze their maximum benefit amount; (B) The state must reduce the ratio of benefit amounts to qualifying wages; (C) The state must restrict qualifying requirements.

Third, there must be no new net borrowing for the state's trust fund as compared to the prior year or, as an alternative, the state's average tax rate is a certain percent, for example, 30 percent higher than the national average.

The first criterion would require states to raise their level of taxation. Since state experience-rating systems that have been subject to high levels of unemployment would normally be generating additional revenue, this provision would require that the states modify their systems to be more responsive to high benefit charges.

The second criterion would apply only to states that are currently compensating unemployed individuals at an average benefit rate that is above the national average. This requirement would permit states whose benefit levels are below the national average and are deemed to be inadequate, to change their benefit structure without jeopardizing their qualification for federal relief. In those states that have a benefit average that exceeds the national average, the state would have some flexibility in changing their benefit structure, but would be required to balance higher employer taxes with some benefit sacrifices. The requirement that only two of the benefit criteria be met, would permit states to evaluate their own situation and choose the manner by which unemployment benefits would be reduced.

The third criterion would require that states not increase their net borrowing as compared to the prior year. This would allow states to borrow for cash-flow purposes but require that the new loans be repaid before the certification data. Recognizing that unemployment is beyond the control of the state and that even if the first two criteria are met, rising unemployment might result in further borrowing, an additional criteria is recommended.

If a state meets the first two criterion but not the third, a state should still be able to qualify for federal relief assuming that they can demonstrate a state tax effort substantially above the national average. We would propose that if the state's average tax rate as defined by total payrolls exceeds by a certain percent the national average tax rate, also defined by total payrolls, the employers in that state are financing their system for reasonable levels of unemployment. Consequently, federal relief should be given to the state.

EXPIRATION OF FEDERAL SUPPLEMENTAL COMPENSATION

The Federal Supplemental Compensation (FSC) program that Congress enacted in the summer of 1982, and became effective on September 12, 1982, is a critical benefit for thousands of Michigan workers. The initial legislation provided for up to six to ten weeks of additional Unemployment Insurance benefits depending on the severity of the unemployment problem in each state. This fall, Congress amended the legislation to provide for up to sixteen weeks of benefits, but the expiration date of the program has remained constant at March 31, 1983.

Currently, some 37,000 Michigan jobless are receiving benefits through FSC, with approximately 4,500 becoming eligible for the program each week. As I have stated previously, because of the long duration of Michigan's unemployment problem and the present bleak employment picture, essentially everyone who exhausts the Extended Benefit entitlement moves on to FSC.

There are two points I wish to make about the Federal Supplemental Compensation program. First, the program should be extended. It is clear from our forecasts for Michigan and national forecasts, including those of the Administration, that unemployment rates will show little change for the rest of 1983. We expect some improvement, but not of enough significance to place many people back of the employment rolls. Since the unemployment situation has worsened since Congress first enacted FSC, it appears reasonable—and essential to the jobless—to continue to program until there are some substantial employment gains throughout the country. The criteria for qualification should remain unchanged. I oppose the proposal that would toughen eligibility requirements. Such a proposal seems Draconian, when we have record levels of unemployment. I recommend at least a nine-month extension of FSC through December 31, 1983.

The second point that I wish to make concerning FSC is the inequitable cost distribution among the states. Current federal law provides that all states have some form of FSC. In those with lower unemployment rates, claimants receive up to ten weeks of benefits. High employment states like Michigan have 16-week benefit maximums. The program is set up so that the claimant would exhaust his or her regular state benefits, then exhaust their Extended Benefits if a state was "triggered on" to EB, and then become eligible for FSC. The inequity exists because the 21 states with the highest unemployment that are "triggered on" the EB program (which is 50 percent state financed) must first use the state Unemployment Insurance tax funds before receiving the federally financed FSC benefits. The 29 states that are better off go directly to FSC. It would be fairer for FSC to become the next step after the regular state program. Then if a claimant used up his or her FSC elgibility, he or she would then move to the Extended Benefit program which is half funded by the states. Then all states would move on to the FSC program at the same point in their sequence. States with the highest unemployment would then bear half the cost for additional benefits under EB, which would be the final program for claimants.

ALTERNATIVE METHODS OF PROVIDING FSC AND UI BENEFITS

There are number of proposals for alternate means of providing FSC and UI benefits. Since details on the various alternatives are generally incomplete or still under discussion, I would like to share with the committee some principles that I think should guide the consideration of such proposals.

The proposal to allow FSC recipients to convert their benefits into a wage subsidy is a basically unsound concept. To substitute training funds for benefits leaves the worker with no means of support. It is unreasonable to expect someone to succeed in a training program when they have no money for food or shelter. To use the same funds that would be paid in benefits for training and call it a training program is only shuffling words.

SUMMARY

When Congress passed the Omnibus Budget Reconciliation Act of 1981, both interest penalties and the FUTA "cap" provisions were established. At the time federal interest was conceived it was thought that interest charges would force states to address the trust fund insolvency issue. Some states have made drastic changes which address trust fund insolvency. However, interest charges will continue to accrue not because of the states inaction, but because of catastrophic levels of unemployment. The Federal Government must acknowledge state action through interest relief. To do otherwise, would not only be contrary to the intent of the legislation which created interest penalties, but also would be a tax on unemployment.

Likewise the FUTA "cap" was established as an incentive to states for modifying their benefit financing system in the face of insolvency. The difficulty with the provisions are that no state is likely to qualify. Even in my state where employer taxes are estimated to generate between 1983-1986, an additional $2.4 billion in employer taxes and $1.1 billion in benefit savings, prolonged unemployment may prevent the state from qualifying for the FUTA "cap." Assuming that is the case, what hallow victory have the states been given by way of the FUTA "cap?"

In view of the national problem of high levels of unemployment, the expiration date for FSC should be extended to December 31, 1983. Training and eligibility requirements should not be increased. Additionally FSC should be realigned so that it is the next level of benefit entitlement following the regular benefit program.

Clearly there needs to be Federal action. I strongly believe that the alternate criteria that I have proposed to you today is a logical and reasonable response to the current problem of unemployment. We in Michigan (and other states sure to follow) have done all we can to address the problem of trust fund insolvency. We need your cooperation and help.

Chairman FORD. Thank you. Governor Thornburgh?

STATEMENT OF HON. DICK THORNBURGH, GOVERNOR OF PENNSYLVANIA, ACCOMPANIED BY BARRY STERN, SECRETARY OF LABOR AND INDUSTRY, AND ROBIN ROSS, DEPUTY COUNSEL, GOVERNOR'S OFFICE

Governor THORNBURGH. Mr. Chairman, members of the committee, I am Dick Thornburgh, the Governor of the Commonwealth of Pennsylvania, and I am accompanied by Barry Stern, secretary of labor and industry, and Robin Ross, deputy counsel in the Governor's office.

I am a member of the executive committee of the National Governors Association, and Governor Blanchard and myself appear here on behalf of the executive committee of the National Governors Association insofar as we are outlining the problem that an increasing number of States face in this area.

We are particularly grateful to you, Mr. Chairman, for your leadership in scheduling these hearings so early in the legislative year, and for the opportunity to discuss with you today an issue of very serious concern not only to Pennsylvania but to a growing number of other States: The ability of our unemployment compensation system to deliver benefits to our unemployed workers without destroying our opportunity for recovery from the current national and international recession.

Current Federal law contains two harsh and punitive provisions for States with high unemployment and unemployment compensation debt problems. The first provision will increase the Federal penalty tax on Pennsylvania employers from $120 million to $200 million in 1983.

This penalty on employers through the loss of their FUTA tax credit comes on the heels of State unemployment compensation tax increases in 1980 and 1982, and an additional one that I will be obliged to propose in the near future. The tax increases and benefit restrictions are intended to end our need to borrow from the Federal Government and to retire our existing debt.

The second punitive provision is the interest imposed by Congress on the amounts borrowed by States since last April 1. We estimate that our interest payments due this year will be approximately $100 million, which we are required to pay from general revenue. This money must be raised, obviously, through additional taxes. If you take that $100 million in new taxes and combine it with the $80 million in additional Federal penalty taxes you can see a crushing tax burden will be imposed on our businesses at the very time that they are striving to survive or to recover. We must look to these very same businesses to recall our workers from the unemployment compensation lines. These are the businesses, in short, that we are counting on for tax revenues to pay off our existing debt to the Federal Government.

If the system is not changed and if current projections made by national economists are used, we estimate that Pennsylvania alone will have to pay more than $2½ billion in interest on our Federal loans by 1989. Over the same period, our employers will also have paid $2.3 billion in penalty taxes.

Mr. Chairman, this is the immediate crisis that we face. I use Pennsylvania as a case study of how industrialized States have reached this frightening dilemma.

At the time that I took office in 1979 the Pennsylvania unemployment compensation debt stood at $1.2 billion. This debt, which we inherited, was due in part to liberalizations of benefits without compensating tax increases during the seventies coupled with the recession that befell the Nation and Pennsylvania in 1975. We did have a system which simply was not paying for itself, even during times of relative prosperity. I recognized that we had to reform our program in 1980 we called for and obtained a $550 million State legislative package of substantially increased employer taxes and reduced benefits. This was aimed at restoring solvency to our unemployment compensation trust fund.

The fact that solvency was not reached but borrowing continued is dramatic evidence of the depth of the recession and the seriousness of the problem we now face. Without our 1980 reforms, our debt would be $1.3 billion greater than it is today.

After enacting our reforms, we asked Congress to consider freezing or placing a cap on the automatic Federal tax increase on our businesses, which was to occur at the same time our own tax increases took effect. The Federal tax was to be triggered and escalate each year until our entire debt was retired. Quite properly, Congress imposed conditions for the freeze which were designed to insure that States did not repeat past practices of relaxing efforts to run fiscally sound unemployment compensation systems. Interest charges on borrowing were also instituted as a further guard against future unwarranted borrowing during periods of prosperity. The conditions for the freeze and the interest provisions were designed to operate in a gradually improving economy. States were expected to be able to repay loans and retire their debt, if it existed, without losing the freeze or paying interest if they made a true effort to do so. Unfortunately, the economic projections were wrong, particularly for the older industrialized States.

In February 1980, the U.S. Department of Labor assumptions for the unemployment insurance program projected a total national unemployment rate for fiscal year 1982 of 7 percent, and a level of 6.5 percent for the first quarter of fiscal year 1983. In fact, the actual fiscal year 1982 average was 9.7 percent and October through December 1982 the average was 10.7 percent. In Pennsylvania, the average unemployment rate in 1982 was 10.9 percent. In January 1983, that rate was 13.6 percent. Moreover, the number of unemployment compensation claims jumped dramatically from fiscal year 1981 to fiscal year 1982, from 8.6 million to 11.4 million.

Regular benefits paid from all State unemployment compensation accounts grew from $13.46 billion in fiscal year 1981 to a staggering $19.34 billion in fiscal year 1982; an increase of 45 percent in demand in 1 year! Clearly, demands of this scale were not anticipated and have brought many State trust funds to the point of unprecedented stress.

At the end of 1980, 13 States were in debt to the Federal Government. By the end of 1982, 20 States were in debt and 7 more have begun to borrow in the first quarter of 1983.

The result of these disastrous economic conditions on our unemployment system is obvious. Not only is our borrowing increasing at a staggering rate, through no fault of our own, but the interest charges are coming due. Statutory devices, which were designed to punish or to tax States which did not balance tax and benefit levels in their systems, will now punish and tax States at unbearably high levels solely because of national and international economic conditions totally beyond our control.

Quite simply, we need to maintain the tax freeze and remove the interest charge burden, at least until our economy and employment levels have improved.

Because the unemployment system is a partnership, we must seek solutions as partners. I pledge to seek additional reforms in Pennsylvania's system to stem our borrowing and hasten the day of repayment of our entire debt. I believe other Governors, as Governor Blanchard has indicated, are prepared to make similar pledges.

Pennsylvania and other industrialized States are reaching what, I hope, is the end of a dreadful recession. However, we are also undergoing major structural changes in our employment patterns. We must be, and are, prepared for sustained, persistent unemployment as we seek to retool our businesses and our economy and retrain our work force. These factors must be recognized in a compassionate, fiscally sound unemployment compensation system. I hope that together we can reach a quick consensus before our unemployment compensation system becomes the straw that breaks the back of our State's, and many other States', economies.

Thank you for your interest and attention, and I believe Governor Blanchard and I would both be pleased to answer any questions you have.

Chairman FORD. Thank you very much. Governor Thornburgh, if you do not mind, would you move those mikes right in between the two of you and, therefore, you would not have to move back and forth.

Governor Blanchard and Thornburgh, how do you respond to the charge that your unemployment financial problems are the result of, one, a liberal benefit eligibility requirement; and two, inadequate State tax efforts?

Governor BLANCHARD. Well, it is simply not true. The facts would speak for themselves. Michigan's benefit levels are not inordinately high. The reforms that we have enacted for sure go a long way to taxing businesses, which is a shame really, because you are taxing business at precisely the time when they are having very difficult troubles. And, whether it is for Michigan or Illinois or any other State, when you start calculating benefit levels and tax levels, you find out that that still does not account for the lion's share of the debt.

The major problem the States face with their debt and their borrowings and the interest and penalties that their businesses are going to face is high unemployment. That overwhelmingly is the case.

Accompanying me is S. Martin Taylor, who is the head of the Department of Labor in Michigan, and is also the chairman this year of the Unemployment Compensation Commission Organization of the 50 States. He indicates to me that Michigan ranks 18th in benefit levels, for example.

Governor THORNBURGH. Congressman, I might answer that by saying that part of the problem is due to an inattention, particularly during the seventies in my State, to keeping in balance the benefit level and the amount of funding required to sustain that benefit level. In our legislature we sought to address that problem in 1980 so that we could come, in good faith, to this body and seek adjustments at the Federal level.

But the second wave of difficulty in the unemployment compensation situation now, I suggest, is due to national and international economic problems which have overwhelmed even the best efforts made at the State level to deal with those problems that did result from an inattention to keeping the benefit levels and funding levels in balance.

I suggested during my testimony that there is a partnership traditionally between the Federal and State governments in dealing with this problem. I think that we would be remiss if we did not acknowledge that some of the problems that exist today came from State inattention, and we would be remiss in not making the type of commitment that I think we are willing to make: to be attentive to a solution of those problems at the State level.

Beyond that, I think we would be remiss to our constituencies if we did not seek to impress upon you the very real impact of the national economic conditions. Conditions beyond our direct control which are exacerbating the problem, and that is what we are really here about today.

Governor BLANCHARD. I think also it should be said that many States, and certainly my own State, failed to grasp the seriousness of the economic recession and the height of the depression, depending upon who you are, that they were faced with. In our case, I think they failed to grasp the structural changes going on in manufacturing and how that affects the State's level of unemployment and its budget. Adjustments have been slow in coming.

But as I think you already know, I think it has been discussed in previous hearings, Michigan has taken a giant step to rectify the problems. But what we are saying is even after that is done, we need relief because the provisions that have been put in place by Congress are unnecessarily rigid and especially at the wrong time.

Governor THORNBURGH. There is one other point that I might mention, Mr. Chairman. If an examination is made on a hypothetical basis of reducing the benefit level in those most troubled States, to what the national average is, you will still find a substantial deficit position which is due to the national economic condition.

Chairman FORD. Well, how do you respond to the position that some States, like Louisiana, have recently raised their UC tax and cut benefits, and that Michigan and Pennsylvania should do the same rather than coming to Washington and asking us for some relief on the interest payments from the trust fund?

Governor THORNBURGH. Well, we did just that in 1980 in Pennsylvania and we propose to do it again in 1983. But my answer is that the concern over this ought to reflect the fact that this is not just a problem of one or two States, but is a national problem. I think that we are anxious to work in partnership again to show our good faith by making appropriate adjustments at the State level, but to seek some relief on the Federal level with regard to that increment of the problem that is due to national factors.

Governor BLANCHARD. I do not know what the unemployment rate is in Louisiana. What is it?

Mr. MOORE. Over 11 percent.

Governor BLANCHARD. I look at that as a small number, compared to what we are faced with.

Mr. MOORE. We do not.

Governor BLANCHARD. I am sure you do not, and certainly the people in that category do not. But there are, as I understand it, 35 States that are now in a position of having to borrow, and I am sure you and your colleagues and staff are checking out benefit levels, tax levels and at some point, I think you have to insist upon a balanced State system. But you still cannot get away from the fact that unusually high levels of unemployment are going to be the major factor. We can, as you know, and have and will debate what causes that and what the role is of the Federal and State governments.

But this is the kind of issue that is a national issue and it requires a set of national policies. And in the time of our worst economic decline since the Great Depression, this is the time for at least some temporary relief. In our case, the State is not going to pay the interest, by the way. In other States, they are if they do not get compensation reform.

I am here to plead the case that all of the businesses in Michigan are going to have to pay higher taxes because they happen to be in a State with high unemployment, and our workers obviously need extended benefits because it is highly unlikely that the people are all going to be called back to work right away. It is a serious problem in economic development. I do not know how we are going to turn around this country if, for example, the industrial heartland, the areas we need to begin to recover, are having their taxes essentially raised on them.

I do not think that anyone here, regardless of their economic philosophy, contended that.

Chairman FORD. Governor Blanchard, are you seeking Federal relief of the interest payments, or to waive or retire the total indebtedness to the trust fund on borrowing, or what?

Governor BLANCHARD. Well obviously, we would like to see the whole thing forgiven, but that is not a realistic position at this time. You have your own budgetary problems to grapple with, which are obviously very, very severe, but we need some relief from interest payments. Yes, we need a delay, deferral, or suspension of the payments until things are better. Certainly, we need to have a realistic cap on the FUTA penalty. Governor Thornburgh can speak, I think, for more States than I can because he has been with the NGA more than 1 month, which is all I have been there.

Governor THORNBURGH. I would think there is very little quarrel with the principles embodied in the 1981 legislation. It is a sound principle to inhibit borrowing by States that are profligate in their nature and seek merely to avoid the necessary meeting of their normal responsibilities. It is a sound principle to provide for penalty taxes on businesses in those States.

In concept I think most Governors would agree that that is a conceptual framework that could be supported. However, when you are talking about imposing those kinds of burdens not on profligate States but on a sputtering economy, you are in effect taxing those States where unemployment is the highest, and businesses in those States which are seeking to recover.

So what I believe in concept is being sought by the 30 or so States, that now find themselves in a borrowing position during these extraordinary times, is some mechanism to defer the payment of interest because of its relationship to the national economy, and some revised framework that would provide for a cap or a freeze on the penalty tax until the economy begins to turn around.

In the long run those changes made in the 1981 statute, insofar as they are directed at preventing States from shifting their entire burden to the Federal Government, make sense. However, they don't make sense at a time when it is not a single State or a group of States that may have engaged in such practices, but an entire economy which is in a condition that produces the need for borrowing.

Chairman **Ford**. Some have made the argument, and this is my final question, that the Federal Government is running huge deficits and that when you see these funds from the trust fund, that the Federal Government is borrowing and we are paying interest, and how can we at this time respond to you with the forgiveness or retiring the interest or just removing that 10 percent, I guess it is, that the Federal Government is charging.

How do you respond to the arguments that some are making now that the Federal Government is borrowing at a higher rate than the 10 percent, at the same time distributing it to the States at only 10 percent when you can't borrow in your own State at a 10 percent rate?

Governor **Blanchard**. That is a good question, but as you know, one of the reasons we have such a huge deficit is high unemployment, lost tax revenues, and increased welfare. Your chances of rectifying that part of the deficit directly related to high unemployment are much, much less if the States that have a disproportionately greater share of that are being excessively, or additionally burdened because they are in the middle of a recession.

It doesn't make any sense, absolutely not. What it boils down to, as you know, is a matter of priority: What is important, what is important for the Congress and the Federal Government to address, and how do you spend your money? I would think that suspending interest payments for States that are in a position of having to borrow to pay out unemployment compensation should be a manageable program at this time for the Federal Government. Absolutely. I just don't see any reason why it shouldn't be done.

Chairman **Ford**. Would you like to respond, Governor Thornburgh?

Governor **Thornburgh**. I would only point out that we have been obliged to accept our share of the program cuts that Congress has enacted in a number of areas that are of key concern, largely without much complaint and outcry, because we recognize the need for this body to restore a sound fiscal situation for the Nation as a whole.

I think what we are urging upon you is the inequity of compounding our necessity of absorbing our share of cuts being made in the program areas with a tax, a penalty upon the very areas in the Nation that are affected most directly by that economic slowdown. I think that inequity is clear and speaks for itself, again reiterating our recognition that the conceptual framework within which these changes were adopted makes sense in normal times.

Chairman **Ford**. Thank you.

Mr. Campbell.

Mr. **Campbell**. Thank you, Mr. Chairman.

First let me say that I realize that any problems are exacerbated by the recession that we are dealing with. We recognize that and we are hopeful for recovery, but putting that aside just a minute, I think it is extremely important to look at the structure of the existing programs in the States because when a State does have large interest payments due back to the Federal Government, to forgive those, of course, is to impact the other States that don't have it. That is part of the whole Federal system and it is something that we have to be very, very aware of.

Having said that, I would like to ask a couple of questions to try to see, outside of the employment question, where we are just dealing with the structure itself, outside of the national climate, just your systems.

From both of you I would like to know what the maximum number of regular benefit weeks happens to be in your State and how it compares with the national average of 26 weeks.

Governor BLANCHARD. We are the same.

Mr. CAMPBELL. You are the same?

Governor THORNBURGH. I'm sorry. What was the question?

Mr. CAMPBELL. The national average of benefit weeks and how that compares with your State. The national average is 26 weeks, and what is your State's regular benefit week?

Governor THORNBURGH. Do you mean the average duration?

Mr. CAMPBELL. The maximum number of regular benefit weeks that you pay.

Governor THORNBURGH. Thirty weeks.

Mr. CAMPBELL. So you pay 4 more weeks in basic benefits than do the average States. That is one problem that I wanted to look at. Obviously that impacts your system.

No. 2, I would like to know how the maximum weekly benefit amount in your State ranks compared to other States. What is your maximum weekly benefit eligibility rate and how does it rank to other States in the union?

Governor BLANCHARD. I think ours is about seventh or eighth, and I mentioned earlier that the overall benefits would rank 18th.

Mr. CAMPBELL. Now in Michigan you say you are about seventh? Was that what it was, seventh or eighth? But it is in the upper level.

Governor THORNBURGH. Pennsylvania is fourth.

Mr. CAMPBELL. Pennsylvania pays the fourth highest benefits in the Nation toward the maximum.

Governor THORNBURGH. Yes.

Mr. CAMPBELL. How does the average weekly wage in your State rank compared to the other States?

Governor BLANCHARD. Ours has historically been highest, although, as I mentioned, our benefit rates are somewhat lower than that. As you know, those are being ratcheted downward for a whole host of reasons.

Mr. CAMPBELL. I am interested in your ratio of wage to benefit payments. That is what I am aiming at, so I will tell you where the question is headed.

Governor BLANCHARD. We restore on the average a little bit less than 50 percent of the wages.

Mr. CAMPBELL. About 50-percent restoration? OK. What about Pennsylvania?

Governor THORNBURGH. I don't have those figures.

Mr. CAMPBELL. Would it be unreasonable?

Governor BLANCHARD. That ranks us 18th, Congressman, in the payment of benefits.

Mr. CAMPBELL. Some figures that I have here, and I would ask this of Pennsylvania, are the maximum weekly benefit amount rank compared to other States is about fourth, and the average weekly wage in the State is about 20th, so I see a little bit of a disparity there in payments.

The reason I am pursuing this line of questioning is to say that outside of unemployment, that there are structural problems in these things. I recognize Michigan has made an effort in it. I still would like to ask what the average benefit wage paid in Michigan is today.

Mr. TAYLOR. About $150 or $152 a week.

Governor BLANCHARD. And that has been frozen, as I understand it, for several years.

Mr. TAYLOR. Right.

Mr. CAMPBELL. Would it be unreasonble for me to tell you that that is the highest in the country?

Mr. TAYLOR. I don't believe we are highest in the country. I am not certain.

Mr. CAMPBELL. I am just going by the background information.

Mr. TAYLOR. What is the date?

Mr. CAMPBELL. I have February 8, 1983. [Laughter.]

Governor BLANCHARD. I don't have the statistic you have cited, Carroll. I can tell you this, that neither you nor I would want to live on $152.

Mr. CAMPBELL. I understand all that, but I also understand the people in other States that are drawing far less keeping the system solvent are concerned, too.

Governor BLANCHARD. We have frozen that for 4 years, I should indicate.

Mr. CAMPBELL. But nevertheless, for information, Pennsylvania is $133 a week, and that is in the top four in the country in benefits paid. So the point I am making is that of the five major States, if you stop and look at them, about 90 percent of the money, if you stop and look at them, they are also paying out the highest benefits and some of their ratios are way out of kilter when you get down to the effort of collection versus benefits.

Governor BLANCHARD. But as you know, Congressman——

Mr. CAMPBELL. And I am not aiming this at the reform. I think you have made an excellent effort. I don't mean to disparage your State.

Governor BLANCHARD. The point is well taken, but it does derive from the fact that the States you are citing, including Michigan, have historically been high-wage States. They were initially very profitable manufacturing industries that paid high wages, and even though we pay 50 percent of the average wage, it turns out to be higher, although all that is changing beginning with the kind of wage concessions that occurred with the Chrysler rescue, extending on to Ford and General Motors and every little company.

I can assure you there is a tremendous change occurring in all of manufacturing America that is modifying those numbers. That is not to say States can't do more. Governor Thornburgh has already testified to that.

Mr. CAMPBELL. The reason I wanted to get all this in was that when we are dealing with the problems you have with interest, and

I am not insensitive to what you are facing. What I am saying is that we also have a problem that impacts the rest of the country. When the States that are paying out the highest benefits are in trouble, getting more from the Government, other States are going to begin to ask who aren't paying them, they aren't there, and they are in better shape. I mean there is still a matter of total equity. The structural problems are there.

You have recommended, Governor Blanchard, that the States freeze maximum benefits and reduce the ratio and restrict qualifying requirements. Would it be unreasonable and obviously you are asking for some sort of Federal guidelines before you explore the possibility of extension of interest or payments or whatever we are going to do. Would it be unreasonable if we explored this to get back to where our general averages are rather than to freeze things at the highest levels in the Nation?

Governor **BLANCHARD**. Well, you are getting there without having to take any more severe steps, I believe. I think that is what you are going to find. For example, we have actually cut benefits for many claimants in Michigan. About 60 percent received the cut.

Mr. **CAMPBELL**. But even after the cuts the payments are highest in the Nation.

Mr. **TAYLOR**. No, they will come down now. You see, that just started on January 1.

Chairman **FORD**. Mr. Campbell, would you yield a minute?

Mr. **CAMPBELL**. Certainly.

Chairman **FORD**. Isn't it true, though, that we are talking about the average? Isn't this calculated into the wages: The higher the wages, the higher the average would be, and you are talking about highly industrialized States. The wages would be a lot higher than maybe my State in Tennessee or South Carolina or Louisiana.

Governor **BLANCHARD**. Absolutely.

Mr. **CAMPBELL**. That is true. The reason I didn't want to just leave it out there hanging by itself was and I asked the question, Mr. Chairman, is looking at the percentage of effort of taxes going into and looking at that ratio of payout to the percentage coming in. That is the reason I used the figure of one State being fourth on payouts and only down at 20 on the percentages coming, because we are relative also on payout and income to our percentages.

Chairman **FORD**. I understand. I was just trying to see how I could raise my State weekly benefit up. [Laughter.]

Governor **BLANCHARD**. I should point out for the record, if I could, Mr. Chairman, that Michigan has the highest average tax rate for unemployment compensation on businesses in the Nation.

Mr. **CAMPBELL**. Well, my time is about up, but let me just ask you this question in closing, to both of you. If in fact we pursued any relief, would you agree that it would be reasonable that there would have to be some imposition of standards on those States that would come somewhere close to what the rest of the States in the country are doing in order to even consider it?

Governor **THORNBURGH**. I suggest that any attempt to nationalize the system, insofar as standards are concerned, might be extremely difficult to do in view of the disparity of wage rates that exist in different portions of the State.

Mr. Campbell. Governor, I don't mean the dollar figure. I mean basically in percentages and this sort of thing.

Governor Thornburgh. I want to get this on the record, because I think it is important to point out that Pennsylvania ranks No. 7 in our contribution rate as a percent of wages. We are not way down in one and way up in the other.

Both of those reflect, I think, as Governor Blanchard pointed out, the fact that in the auto and steel industries, which were the respective backbones of our traditional economies, the wage rates have been high during periods of productivity and successful high levels of operation in the auto industry. Now, as you know, in negotiations between the United Steel Workers and the steel industry, there is a substantial focus on reduction, rather than increase, in those wage levels. That has a self correcting kind of effect by bringing into balance the employment picture as well.

That is to say that if those wage concessions are forthcoming, as they have been in the auto industry and may well be in the steel industry, it is likely that productivity will go up in those industries which will attract more people back from the unemployment rolls, and our burden across the board will be dealt with appropriately there.

How you can equalize that situation with what might be obtained in a State that has an economy of different characteristic and contour, I am not sure. I don't think there is any objection whatsoever and, indeed, a great deal of support among all of the Governors for a fair and equitable approach by the Congress to what the Federal obligation is.

I think what we are suggesting today is that equity is not in place because of the unintended results of the 1981 amendments. With regard to other changes, naturally I don't think anyone on behalf of any of the Governors is seeking to benefit one State, one region, one industry whatsoever at the expense of another.

Mr. Campbell. But you are going to undergo structural changes in your own system such as Michigan.

Governor Thornburgh. No question. I wanted to reiterate that. We have done that already. I wanted to be perfectly clear.

Mr. Campbell. You inherited some of it, I understand. So did the Governor of Michigan.

Governor Thornburgh. Well, we don't want to necessarily dwell on the past so much as to impress you with our determination to see that we do our share to cure some of these imbalances that have historically arisen, and we are committing to do so.

Mr. Campbell. Finally, you were 1.3 percent effort and you raised it in Michigan. Do you know what your new percentage of total wages paid now is? You were at 1.3 before your reforms.

Mr. Taylor. It is going to be probably doubled.

Mr. Campbell. OK, thank you.

Chairman Ford. Mrs. Kennelly.

Mrs. Kennelly. Governor Blanchard, we had Members of Congress from the State of Ohio here yesterday and we had a little more back and forth on this whole subject, and they indicated that the increase had moved so quickly on unemployment and the situation had deteriorated so badly that they had not had time to do some of the things that you did.

Now you have come before us today and we see a Wall Street Journal editorial saying that you really made a good faith effort, an excellent effort, to address solvency, and this goes over very well here in Washington. Could I ask you more about the 1982 amendments that were passed by your legislature, what effect did they have at home; what is your business climate; what are they saying about the changes?

Governor **Blanchard**. Well, it is extremely difficult. We have several problems. One is the system is out of balance because we have had such high unemployment, and I think the tax and benefit levels were unrealistic under those conditions. The second was we had a major difference in the way that a positive balance and negative balance employer was taxed which favored negative balance employers, meaning industrial and manufacturing corporations and construction.

So what was happening, we had a colossal problem in which the growth sectors of our economy were being taxed unfairly and inhibited from growth because we were trying to lighten the burden on the distressed sectors of our economy, namely, automobiles and auto related industries. That was all changed with our reform.

Whether it is the Wall Street Journal or any fair minded person, they would say Michigan has done an outstanding job of making internally in the State the unemployment compensation system far sighted and fair; but in doing that, the tax rates on companies in trouble, businesses in Michigan, is the highest.

The maximum rate is the highest in the Nation in a State that probably at this point, if you wanted to pick a State out where you would cut that, it would be Michigan. Certainly Pennsylvania, Illinois, and Ohio and probably Alabama, as I recall, because they have a lot of steel down there, would need a cut.

So this is the reverse of the old countercyclical principle, as I outlined, which is you give some temporary relief to pockets of distress where people are in distress. We are doing the opposite. It makes economic recovery in the industrial heartland, I think, far more difficult, far more difficult.

Mrs. **Kennelly**. So the jury is still out whether it is going to be a plus or minus at home?

Governor **Blanchard**. Well, it can't possibly help our business community; it can only hurt. The burden within our State is more fairly spread now than it was before the reforms, but as an aggregate, it can't possibly help our businesses. What it has done is put the system within the near term on a self financing basis.

But my point of the testimony is we are still having to borrow and pay interest, which is another penalty on our businesses and our people. So we have achieved the intended results of the 1981 legislation, but I would not want to say that is a good thing for our State at all, no. I think it is harmful.

Governor **Thornburgh**. May I speak to that same point with a slightly extended historical perspective. Our reforms were undertaken in 1980, 2 years before Michigan's, and at the time, as I indicated, given the forecasts of the time, it was estimated that this would bring our fund into solvency. Those reforms added $400 million annually in increased taxes to Pennsylvania businesses, and adjusted $150 million in benefits downward for those unemployed men and women in our Commonwealth.

So that the net impact of that in no way could be assessed as favorable. Now we are back. I will have to present once again, to our general assembly, a proposal that makes a further effort to bring our fund into balance, and we shall do so. The point again, which may sound tedious but bears repetition, is this is hardly the time to compound that with the additional penalties imposed by the interest and loss of freeze capability.

Mrs. KENNELLY. Thank you, Governors. I meant to thank you for approaching this as a national question because really in one way or another, though you people have the highest unemployment rates and have the largest numbers of people unemployed, the problem does affect 35 other States. However, you have been fairly light with us in describing the specifics of the relief you want.

I mean this is your chance. What would you prefer? Would it be a deferral of the interest rate? Would it be an extension of the time to pay? Would it be a national average on unemployment to trigger something for every state so that someone like Mr. Campbell wouldn't be upset like he is?

Governor BLANCHARD. Let me be specific. I think the first thing is the States that have made a reasonable attempt to correct their system ought to get an interest free loan, at least during the severe part of our recession depression.

Mrs. KENNELLY. Could you say that again for me a little louder?

Governor BLANCHARD. An interest free loan.

Mrs. KENNELLY. If you did what?

Governor BLANCHARD. Made a reasonable attempt to reform our system.

Mrs. KENNELLY. So then what really we would have to outline is what is a reasonable attempt.

Governor BLANCHARD. Then I think it could be developed. I can assure you that. I am sure the NGA, the National Governors Association, along with the compensation commissioners group working together can come up with some standards which would satisfy most of you and I would hope even my friend Hinson Moore from the great State of Louisiana or at least a fair minded person could adhere to.

I would not want to single handedly here tell you exactly what that should be, but I think——

Governor THORNBURGH. I think we are in agreement on the concepts. You have probably heard those repeated perhaps more than necessary this morning, the concepts of deferring in some way the interest payments and in some way readjusting the qualification for the cap or the freeze on the penalty taxes.

I am sure we would be delighted to develop a consensus, through the National Governors Association, and suggest such a view to this body. I think that we ought to make it clear that we are not suggesting, although we are always tempted to, we are not suggesting that the indebtedness be foregone or forgiven.

Mrs. KENNELLY. How about the elimination of the interest rate per se? Are you asking for that?

Governor THORNBURGH. I frankly think some of the borrowing that was undertaken by my State during the 1970's was unjustified, and I think there are probably other States that either in the past or in the future might undertake similar unjustified borrowing to shift the burdens of their increasing costs to the Federal Government.

I don't think that is a proper thing to do. The interest is a proper mechanism to inhibit unjustified borrowing. I do not think it is a proper mechanism to penalize needed borrowing which does not relate to State profligacy.

Mrs. **Kennelly**. So you think that is where we are and what we have to work out?

Governor **Thornburgh**. Absolutely. I think this is a problem that we have at the national and international level and in no way reflects, and in fact runs counter to, the efforts that our two States in particular have taken to deal with the problem and stabilize our fund.

Mrs. **Kennelly**. Thank you, Governor.

Thank you, Mr. Chairman.

Chairman **Ford**. Mr. Moore.

Mr. **Moore**. Thank you, Mr. Chairman.

Gentlemen, we thank you for coming to be with us today to share the problems of your States. Let me first tell you that no public servant in his right mind is insensitive to the problems of Michigan and Pennsylvania and Illinois and Ohio and all of the States being troubled with high unemployment. My own State is above the national average. We have our problems there, too.

We want to help you any way we can, and I am glad to say that through my colleague Mrs. Kennelly's questions, my view of what you are asking for is being moderated. I understand now you are not asking for forgiveness of the principal of the debt, and I understand that you are really not even asking for forgiveness of the interest. You are asking for a deferral of the payment of both in some way. Am I right?

Governor **Thornburgh**. I think that if I was misunderstood in that respect, I do clarify it. I am saying that there ought to be objective standards developed that call for a triggering of interest payments during a time that the economy is in somewhat healthy condition. To impose that interest penalty during the time of stress that we are in today does not make sense.

The deferral refers to the fact of deferral to a time of more normal national economic situation and a lesser rate of national unemployment.

Mr. **Moore**. So what you are telling me is——

Governor **Thornburgh**. I don't think the interest rate ought to be charged under these conditions.

Governor **Blanchard**. I would agree with that, Congressman; that what we would want is, assuming States are making a reasonable attempt to have a balanced system, the borrowing should be interest free during this period.

Mr. **Moore**. Governors, I will say to both of you you were reasonable until you made that Statement. Now we are going back to the same old story before either one of you were Governors, and I am going to oppose that. I am going to go so far to do everything I can with the administration to have them veto any bill that would have something like that in it.

Now, if we want to draw legislation to take into account a State that has a very high unemployment rate and has taken actions recently to address the problems of insolvency in their fund, to give you the chance to defer payment of interest and principal under those circumstances, then I am willing to work with you just like I did 2 years ago when we worked on drawing the interest provision. That was the amendment I offered in this committee, and we did it to satisfy three States: Illinois, Michigan, and Pennsylvania.

Last year we tried to make some more changes to satisfy three States, and now, as near as I can tell, we are getting ready to draw these things again to satisfy three States. I am getting just a little concerned that it is always the same three States.

Governor Thornburgh, you keep calling this a penalty. This is no penalty. Somebody has got to pay the interest. It is either going to be the taxpayers as a whole or it is going to be us paying a part of it and you paying a part of it. According to what the staff worked up, we are going to spend $2 billion in the next fiscal year on the interest for the States for us to borrow the money to lend it to you.

You are talking about not paying anything out. Well, you are not paying it but the taxpayers are. It is not a penalty. We are loaning money to you, and under anybody's interpretation of a loan, there is usually interest involved. We are giving you the rate at below what it cost us to borrow the money. We are paying the difference, $800 million, out of our own pocket, meaning the national taxpayers, so it is not a penalty. We are talking about an interest.

Now, if you want to do what any reasonable banker would do, and that is talk about deferring these loan principals and the interest thereon with interest on that, then I am willing to work with you on that because you have got problems. But if we are talking about coming here for a bailout, that is the end of the road. I am not with you on that.

Governor BLANCHARD. Let me say, Congressman, that I appreciate that you are willing to consider some relief. And I would not want to be ungrateful for that offer. You simply asked our honest response to the question, which was what would we really like beyond the fact that obviously we would like it all forgiven. And that is totally unrealistic. We are talking about suspending the charge of interest.

But I am pleased that you are willing to consider some alternative to that, because I do not, I really do not, think it is wise and in the national interest or in Michigan's interest or anyone else's to be levying these types of interest charges now.

I think it is more fair for the Federal Government to pick up that interest. I do.

Mr. MOORE. Well, you may think that is fair, but we have a history of your State and Pennsylvania and several others borrowing money before you all were Governors. Governor Thornburgh was very candid when he said some of those loans were bad, going back to days when the times were good. That is what got you in trouble. And we let you try to bail out of that. We have tried to help you get out of that. And now you are telling us we need some more help still. And we come to a point somewhere where you have got to draw the line.

Governor **Thornburgh**. I suggest, Congressman, that there is a great deal of difference between a State that in good times is borrowing to avoid its obligations and a State which is in bad times, affecting some now 35 States in the Nation, which is obliged to borrow in order to keep some semblance of fiscal sanity in its own confines.

Perhaps that really is the difference we have not approached. It seems to me there are two different kinds of situations that we are talking about here. I could not agree with you more that it is necessary to inhibit unnecessary borrowing at a time of normal economic conditions. But with the national implications of what is happening now, none of these States are borrowing volitionally. We do not wish high unemployment or the need to borrow for our funds in our States. Quite the contrary.

Mr. **Moore**. But the point of it is, though, that I am not hearing from all of these other States right now. Before we had the interest penalty or the interest provision which went into effect April 1, 1982, we had 34 States and territories that were borrowing. As of right now we have 15. The Department of Labor says before the end of fiscal year 1984 we may have as many as 39 States come in and have to borrow. My State is one of them.

I am not hearing from my Governor asking for a waiver of the interest. They manfully stood up and determined in late 1982 they had a problem, the fund was not going to be solvent. They did what Michigan did, they called a special session.

Governor **Thornburgh**. And Pennsylvania, I might remind you.

Mr. **Moore**. In 1980. But you have not done anything since then. In 1982 I heard that promise we are going to do something in 1982. I heard that promise we were going to do something in 1983. I am hearing that promise you are going to do something.

Governor **Thornburgh**. I beg your pardon. I made no such commitment.

Mr. **Moore**. You did not, but your representatives did here for you.

Governor **Thornburgh**. No. This is what we are doing. At a very early date this year I will be submitting to our general assembly a second package designed to do precisely what you suggest.

I think it is important to note that there are 13 Governors—Republican, Democrat, north, south, east, and west—who have submitted a request to Senator Dole under the date of February 3 and to Chairman Rostenkowski under similar date, making the points that we are trying to make this morning. I do not want to appear here as a Lone Ranger pressing the interest only of Pennsylvania or Michigan.

Mr. **Moore**. Well, I think you gentlemen are the only ones that have the guts to come here and ask for something like this. [Laughter]

I think you gentlemen are the only ones who have a bad enough record to support it. These other 9 or 10 States have no business asking for that. You know it and I know it. They do not have the same problems you have.

Governor **Thornburgh**. Governor Thompson of Illinois, Governor DuPont of Delaware, Governor Bond of Missouri, Governor Rockefeller of West Virginia, Governor Snelling of Vermont, Governor

Orr of Indiana, Governor Perpitch of Minnesota, Governor Celeste of Ohio, and Governor Earle of Wisconsin have expressed to the chairman and to Chairman Dole precisely the concerns that we are expressing here this morning.

Mr. MOORE. And some of those States have done absolutely nothing and have been borrowing from the fund back as far as 1972. They had a good gravy train going, and if you can keep the gravy train going for them, they are glad to tag along with you. That is going to be the problem. We are going to have the nondeserving States asking for the same kind of relief you are asking for, and they really do not deserve it. Maybe you do not either, but certainly they do not.

Governor BLANCHARD. Let me suggest, though, there is a difference between allowing or continuing to allow a State to not meet its obligations and slide its interest costs off on the Federal Government, that is, the taxpayers of the entire country, and taking a look at a State which has made a good-faith attempt to rectify their system and taking major strides and then still finding after that encouragement because of the legislation you passed, that it does not do any good.

Mr. MOORE. I think you are the only State that meets that test. And I think that if we draw a test, this is the problem you have with the rest of the Governors. If we draw it to a test of a State that has high unemployment and recently took action, you are the only one that meets that test.

Governor BLANCHARD. Well, I think we are going to find other States will fall into that category.

Mr. MOORE. If we loosen up the test, sure. We could loosen it up enough for everybody to get in.

Governor THORNBURGH. I would hate to think Pennsylvania would be penalized for taking action before other States.

Mr. MOORE. But you did not do it in 1981 and 1982 when the fund was still in trouble.

Governor THORNBURGH. But we did it in 1980 to the tune of a half a billion a year, which has saved us from the need to borrow a billion additional.

Mr. MOORE. I commend you for that, but you still have not done anything in 1981 and 1982, and four States did.

Governor THORNBURGH. I do not want to get into who did what when. I can say they did not do anything in 1980 and therefore their problems——

Mr. MOORE. They were in trouble then and they were not borrowing like you before then either. Your State is a bad State in this record period. And you are trying to pull them out, and we are going to try to help you with that, but we are not going to bail you out, not as long as I am sitting here.

Governor THORNBURGH. I do not think we are asking for a bailout.

Governor BLANCHARD. Let me suggest that if you establish reasonable criteria, you will see the States be more than responsive. Less than 2 weeks after I was sworn in as Governor, Governor Thornburgh, Governor Thompson, Governor Orr of Indiana, representatives of Governors Bond and Celeste, Governor Earle of Wisconsin and I met. We all huddled in Chicago, and I can assure you that there will be more than enough incentive for us to make whatever adjustments have to be made.

This is a critical problem. It is coming at precisely the wrong time in terms of State budgets and businesses. And I have found in my few short weeks in dealing with other Governors that if you develop a fair criteria, you are going to see action. But you are still going to have to face the question of whether or not there is not some responsibility here during hard economic times.

Mr. MOORE. Well, we are just extending unemployment compensation benefits for 6 months, and we are paying 100 percent of the bill. That is part of our responsibility.

Governor BLANCHARD. You do not want to encourage people to borrow here rather than take care of their own problems.

Mr. MOORE. So let us do away with anything that encourages them to pay their bills.

Governor BLANCHARD. But if you really want to go a step further and after they have done what we all think is the intelligent thing under creative federalism or new federalism, you do not still want to have them bearing this kind of burden, because you discourage States from taking care of these problems. You force every solution to be Federal, which is the opposite of a conservative doctrine being espoused in this city.

Mr. MOORE. But that is exactly what you are doing, coming back to the well again. Nobody has ever paid any of this interest except in the last 12 months, and the States that have had to pay it have been bellyaching from the day they sent their first check in and fought this interest provision all the way in the passage in 1981. So you do not come in here with clean hands. You are coming in here always having fought this, always having opposed it, always having bellyached, always having wanted to be bailed out like we have done for some 15 years with about five or six States.

Let me get to the question that Mrs. Kennelly asked about the employees in your State saying this is going to be a bad situation. Jim was quoted in Michigan after you made the changes in Michigan. You are to be commended for complaining about the new UI law would affect its ability to create and maintain new jobs.

The Wall Street Journal of January 25 in an article concludes GM's concern is more the age old attempt to get somebody else to bear their burden of taxation.

Let us face it, you gentlemen have a tough job. You have the employers coming to you saying, do not penalize us, do not tax us. You have the unions coming to you saying, do not cut benefits. You have the people who are on these rolls not finding jobs. You have the legislatures having problems. Where is the easiest place to go? Come here and have us fix it for you instead of facing the music back home in your own State.

Governor BLANCHARD. Let me mention one thing. First of all, I do appreciate that you earlier stated that you are willing to support some form of relief, because I think that should be noted. [Laughter.]

I would not want to do anything to deter you from that. General Motors did oppose the reforms in Michigan, but the rest of the business community and the labor community got together to enact them. So I would not want to see you cite that.

Mr. MOORE. And you are to be commended. But that is what I am saying. If we drew anything to let anybody be forgiven for interest or deferred, it ought to be on States that have taken for demonstrative action. You are the only one that has done that; that is, asking for this interest deferral. Several other States have done it, like South Carolina and Louisiana and whatever. But they are not in here asking for this, but you are.

And you see, in drawing the lines, we have the problem and I have been through this drill in 1981. How do you draw the line? I gave in on the interest rate being 10 percent instead of what it cost the Federal Government. So even if you pay the interest, the taxpayers are still subdizing you.

I drew the line on all of the other little things we did to see to it that the thing would not be triggered on Pennsylvania and Illinois and Ohio and your State of Michigan. Now, since we have done that, you are the only State of that group that has done anything, and I appreciate that. I think the Governor is going to do everything he says he is going to.

But the point is it has not been done. And I just surely think that if we draw any kind of formula, we are drawing the line. If it is going to be so loose, then it is going to wind up letting all the other States in that have done nothing. The taxpayers pick up the bill, and that is just not fair to the American taxpayers.

Governor THORNBURGH. Could I just make a couple of points, Congressman? First, just to correct the record, I believe we did support that we did not resist the interest.

Mr. MOORE. In 1981 your representatives behind the scenes fought me tooth and nail. We finally yielded on the final version you agreed to. But it had no teeth in it. And now you come in here pulling the last remaining tooth that was in it.

Governor THORNBURGH. Well, it has $100 million worth of teeth in it for us this year.

Mr. MOORE. Well, if you did not think it would be there, your people would not have supported the bill.

Governor THORNBURGH. Well, again I just want to respond to your characterization of Pennsylvania as doing nothing.

Mr. MOORE. Since 1980.

Governor THORNBURGH. In 1980 the economic forecasts that I referred to in my statement laid a basis for us to believe that reforms we undertook, in good faith as a precursor to seeking your cooperation then would stabilize the fund. It is by now obvious to us that that is not the case. And we are going to have to undertake further reforms.

I think that that commitment is evidence of the fact that we are not looking for a bail out, we are not looking for special treatment. We are perfectly willing to go forward with these types of changes.

Mr. MOORE. But, Governor, the borrowing continued. You took the action in 1980. In 1980, in 1981 you came in and borrowed more money than you had in 1980. In 1982 you borrowed money. You are going to probably be back again in 1983. You should have seen before now when you are asking for us to bail out some of your problems. I think what you are trying to do is be able to go back to the legislature to make it easier for you to pass something up there, claiming we have the boys down in Washington willing to forgive this, that, and the other. And I think that you are under a lot of pressure to do that.

And the point is when you saw the problem continuing to worsen, you did nothing in 1981 and 1982. Other States did in that time frame when they realized their original projections of 1980 were not accurate. They still took action. Michigan did.

Governor THORNBURGH. Well, Michigan took action in December 1982, and we propose to take action as soon as we can in 1983. I do not think there is much difference of time there, given my commitment to you this morning.

Mr. MOORE. It is just the history. Your commitment I take as a gentleman. I am sure you will do everything you can.

Governor THORNBURGH. It is a commitment we have delivered on earlier.

Mr. MOORE. But the history of your State has not been a good history. You have been borrowing excessively. You took some action in 1982. You have put it off until the last minute, seeing how much you could beat us out of before you go back and face your legislature.

Governor THORNBURGH. That is not my intention, Congressman.

Governor BLANCHARD. Let me mention, Congressman, the point we are trying to make, though, is that I believe—and as Governor Thornburgh has stressed—that the National Governors Association is more than willing to develop a standard to measure this problem and measure whether States are making a good-faith solid attempt to reform their systems, that we believe most fair minded Members of Congress could adopt.

Second, even States that have taken a major reform, like Michigan, are still forced to borrow. Louisiana may well, it is estimated, come in after its reforms, Congressman, and borrow $310 million.

Mr. MOORE. That is right. And they are going to pay it back with interest.

And I think that I am more than willing to look at the formula that the Governors Conference comes up with. But I warn you, do not bring us a shell of a formula, something that covers every State that wants in, because every State is going to want in. If one State, including mine, finds out that your State is not going to pay interest and Arizona is not going to pay interest and Arkansas is not going to pay interest, well, they are going to ask you to bend that formula a little bit more so they do not pay any interest.

And so it is either going to be a meaningful test that every State faces and only under some extraordinary circumstances do we give somebody a deferral, or it is going to be a situation where there is no test and we will go right back to the days of old where the system is going to be absolutely pirated by four or five big States that have the voting blocs and have the brass to come in here and do just that.

Governor BLANCHARD. Well, I wish we had those kinds of voting blocs to pull it off.

Mr. MOORE. Well, you did a pretty good job for better than a decade.

But, gentlemen, I do thank you for your candor. And believe me, my purpose in this is one of trying to be fair, because I have sat here for a number of years now and watched this system which you had nothing to do with, neither one of you gentlemen did, of causing the problems that are here. And I only hope that you can make good on your word to straighten it out.

I just want to conclude by simply saying that I hope the people who are watching or paying some attention understands what is going on. It is not a matter of anybody on this committee being heartless toward the States of Pennsylvania, Ohio, or Michigan or anybody else.

Chairman **Ford**. You do still feel that they are part of the Union? [Laughter.]

Mr. **Moore**. I think that they are. We tried to get out some 100-odd years ago and it did not work, so I do not guess they can either. [Laughter.]

The point is that somebody has got to pay the bill. Money is being borrowed that nobody has, and we are running up tremendous Federal deficits which are causing your unemployment problems. We think we are adding a lot to it, and we have to do something about it. We cannot afford to pay $2 billion in interest with no hope of returning it and then encourage people to keep on borrowing. We just cannot do that.

Somebody has to pay that bill, and we are asking you to pay a portion of it. You are asking us now to waive that or to give you some kind of deferral on that. Let us see if we cannot work together to come up with some kind of formula that does that fairly.

But to me that is going to mean drawing it tightly so only States with high unemployment may be able to receive deferral. That is going to be deferral with interest, because we are going to have to pay the interest on the interest, so we are going to ask you to do the same thing. We will do what your friendly banker will do and not much more.

Governor **Blanchard**. Well, I was on the Banking Committee, so I am not sure I want that. [Laughter.]

Mr. **Moore**. Well, this is not going to be what your legislature wants to hear. It is not going to be what you want to hear. What you want to hear is forgiveness and forget. And unfortunately, I think those days are gone. I do not think we can do that.

But I thank you very much for being here and for tolerating my sometimes, not hostile, not intended to be hostile, but probing questions. We need to get this out in the open, and you will both know where we stand. And I think I know where you stand, and I hope you now know what we hope is going to be a response. You bring us something that does not bail out everybody but something that helps only those States who really need it.

Governor **Blanchard**. Congressman Moore, let me just indicate to you that you make a lot more sense and are a lot more sympathetic than some of the members of the Michigan Legislature.

Mr. **Moore**. I would hate to face some of the problems you have. [Laughter.]

The same thing with Pennsylvania. Our State went through markup, and our Governor was called the greatest hater of working people since Hitler and Herrod, in terms of what he did in cutting benefits and raising taxes. But it was done to meet the test that is in place. And I think every State ought to do that. And the State that does that and still is facing bankruptcy for having to pay the interest, OK, we will work with you on that. But to let other States get out of this thing when my State has had to bite the bullet, I just cannot go along with that.

Governor **Thornburgh**. Congressman, we obviously are advocates for our States, but I think you——

Mr. **Moore**. And darned good ones, I might add.

Governor **Thornburgh**. I think your last comment about devising a test that is to deal with extraordinary times is one that we can sympathize with and support. And we genuinely look forward to reaching that kind of a formula that deals with the extraordinary situation and, to reiterate again, inhibits the kind of profligacy that created part of the situation in some of those States that were borrowing in an unjustified way.

Mr. **Moore**. Well, Governor, again I take you at your word because you have credibility in your word. But I urge you and remind you that if you look over the list of the States that have been borrowing, we have some States that have not done what you did in 1980 or what Michigan did in 1982 or Louisiana in 1983. They have not done a darned thing, and they are going to want to tag along and be bailed out. And they are going to sink your ship if you let them on because you are going to be putting some freeloaders in there that should not be on the way. Thank you very much.

Chairman **Ford**. Mr. Pease.

Mr. **Pease**. Gentlemen, you deserve a break today. [Laughter.]

After that penetrating exchange, frank and useful, between yourselves and the gentleman from Louisiana, I think the issues have been aired very clearly and you have been very frank and forthright in your responses. I would just like to thank you for your testimony this morning and say how glad I am in particular to have our former colleague Mr. Blanchard back with us. Thanks very much.

Chairman **Ford**. Mrs. Kennelly.

Mrs. **Kennelly**. Yes. I would have to think a little longer about what the gentleman from Louisiana had to say, because, first, there were the bad guys and then we do not want any more bad guys. But I think if we are going to have a formula that we can all work with, you have to have a number of States involved who are not doing all the things that the Congressman from Louisiana said.

My Governor would have been here today because we are going into this situation, but he is giving his budget address in our State today, which shows a severe budget deficit. And that is why I am so interested in this question.

However, I think the other reason he is not here is that Jim, Mr. Blanchard said to Governor Thornburgh, it will not be so bad, and you believed him, and that is why the two of you are here. [Laughter.]

So thank you very much.

Governor **Blanchard**. Thank you.

Chairman **Ford**. Governor Blanchard, to have avoided any borrowing at all, what would the State of Michigan, as it relates to the average weekly benefit cuts, had the State of Michigan, say, 2, 3, 4 years ago avoided any borrowing whatsoever, what would have been the action that the State of Michigan would have had to have taken?

Governor **Blanchard**. Our benefit level would have been $58 a week.

Chairman **Ford**. Your benefit level, the average would have been $58 per week in order to have avoided borrowing any money from the Federal Government at all?

Governor **Blanchard**. Nobody would have suggested that. I assume no one would have suggested we do that.

Chairman **Ford**. What about Pennsylvania, Governor Thornburgh?

Governor **Thornburgh**. I do not have a figure, but I suspect it would be a comparable cut in weekly benefits to what Governor Blanchard described. Below a level that I think any of us would be willing to countenance as a matter of humane treatment of those people who through no fault of their own are unemployed. We can get that figure for you, Mr. Chairman.

Chairman **Ford**. The committee would like to thank the two of you for your testimony today.

Mr. **Moore**. Mr. Chairman.

Chairman **Ford**. Mr. Moore.

Mr. **Moore**. Mr. Chairman

Governor **Blanchard**. Mr. Chairman, if I could follow up on that too. We would have been restoring only 16 percent of the wage to someone thrown out of work if we had not borrowed. So you can imagine what devastation that would have been for people and families. We are, after all, talking about people here ultimately.

Chairman **Ford**. Without raising any new taxes. How much would it have been if you had raised new taxes, if you had not borrowed from the trust fund?

Governor **Blanchard**. An astronomical amount, over 300 percent. Astronomical. It is probably true, and Congressman Moore, I think, made the point, you do not want to pick the worst case State necessarily or the worst case two or three States to make a national policy. That is really what you are saying as well. We are not submitting that, but I do believe when you have got 35 States borrowing, they are all going to be in here.

I remember a couple of years ago talking to my colleagues about unemployment, and nobody thought unemployment was an issue. But they are all going to be in here. And the longer we wait to address the problem, the more difficult it is going to be and the harder it will be for it to work effectively.

Governor **Thornburgh**. Mr. Chairman, I would ask your permission to submit to this subcommittee a statement on behalf of Gov. James R. Thompson of the State of Illinois, who was to have been here this morning but was not. And if I could ask this be entered into the record, I would do so.

Chairman **Ford**. Governor Thompson's statement will be made a part of the record, Governor.

[The prepared statement of Governor Thompson follows:]

STATEMENT OF JAMES R. THOMPSON, GOVERNOR, STATE OF ILLINOIS

In recent days, the nation has heard the President, the Congressional Budget Office and a number of leading economists state cautiously that economic recovery has now begun. But such a recovery will be slow in coming to the nation's industrial heartland. The viability of these states' industrial base has been severely undermined by this recession and the subsequent restructuring of the nation's economy. These factors and others have contributed to the laying off of thousands of workers, some losing their jobs permanently.

The strain of so many unemployed persons and the duration of their unemployment has tested the financial capacity of state governments to meet its obligations to those in need. This in turn has caused the states to seek financial assistance from the federal government. With so many states seeking assistance in recent years and many unable to repay previous loans, the nation's unemployment insurance system today faces a severe and ever growing crisis.

For states like Illinois, the severity and duration of the recession has exhausted our capacity to both provide benefits and remain fiscally solvent. As of the end of 1982, Illinois' unemployment insurance debt to the federal government alone stood at $2 billion. Other states like Michigan, Pennsylvania and Ohio are equally as indebted to the federal government, and each is attempting to develop solvency legislation which will lessen its future liability. In my own state, the $2 billion we presently owe the federal government is particularly distressful since we had taken actions designed to correct this problem. In 1981, I convened a meeting of business and labor leaders in which they agreed to a series of changes in our unemployment insurance law. The package of reduced benefit outlays and increased revenues totalled $497 million.

When changes were made the expectation was that the recovery would begin soon. This impression was reinforced by both state and national forecasts which indicated that recovery was to begin in late 1981 or early 1982. Instead of recovery, Illinois experienced a 50 percent rise in unemployment and was forced to borrow $800 million to finance 1982 unemployment insurance benefits. In the foreseeable future the picture is expected to be equally as bleak. Present projections indicate that Illinois will need to borrow an additional $850 million for benefit payments in 1983. Even with anticipated drops in the overall unemployment rate, substantial borrowing will continue into 1984 and 1985.

These operating deficits are due, in part, to the fact that the unemployment insurance system was designed to bear the impact of a 6 to 12 months recession, followed by 40 months of recovery and growth. The present recession is now nearing its third anniversary, and the economy displays little indication of a swift recovery. The problem we face in Illinois has been further exacerbated by the fact that since April 1, 1982, a ten percent interest charge has been levied by the federal government against all borrowings. This interest penalty will cost the State of Illinois $60 million by September 30, 1983. Projections indicate that were Illinois to do nothing about its Trust Fund deficits during the next few years, our interest payments by decade's end could total nearly $1.5 billion. Such payments come at a time when Illinois faces severe budgetary constraints, and can ill-afford even the interest payment due on October 1 of this year.

Presently, Illinois is just one of many states which shares the problem of benefits exceeding revenues. It is believed that in 1983 some 30 to 35 states will borrow from the federal government. Some will borrow merely for cash-flow purposes, while others will borrow for long-term needs. States which in the past have been blessed with large and ample reserves or long periods of substantial economic growth find themselves requesting loan advances for the very first time. It is not clear when this new rush for funds will begin to diminish in scope.

As Governor of a State which has a large outstanding debt, I am prepared to take the necessary action needed to bring about additional reforms in Illinois' benefit and tax structure. In recent weeks we have begun work in addressing the need for further unemployment insurance reform. We have convened a series of meetings in which we have briefed the legislative leadership and the heads of key business and labor organizations. We have spelled out the bleak future the unemployment insurance trust fund faces, and have begun the negotiation process which we expect will culminate in substantive State changes.

We expect in the next few weeks to develop a package which consists of benefit reductions and tax increases for the next three years. It is estimated that the package will total over $1 billion, and result in major sacrifices from both the business and labor sectors. But such changes, however, can not totally solve the problem without penalizing the unemployed or substantially slowing our economic recovery.

The criticism is often raised, particularly here in Washington, that industrial states like Illinois have created their own problem by paying what are construed as excessively high unemployment insurance benefits or providing an insufficient revenue base. While it is true that the average benefit payment in these states has been higher than average, the true culprit is the magnitude and duration of unemployment we have experienced.

To highlight this point, I note the following:

Illinois U.I. tax rate for 1982 was equal to 1.4 percent of all wages paid, a full 25 percent above the national average.

In 1982 system benefits exceeded revenues by nearly $800 million. Our weekly benefit payments averaged $145. Had we paid benefits at the national average of $122/week, however, our deficit would still have been $550 million.

Therefore, it is difficult to accept the criticism that our own benefit/tax structures have singly created our financial plight.

In solving this crisis, a consensus is needed which recognizes that, at least in the short term, states cannot possibly solve this problem alone. Illinois and the other industrial states which bear most of the recessionary brunt must have continued federal assistance while they resolve their unemployment insurance plight. What Washington can and should expect from the states in return for assistance, is that the states will implement major reforms which not only address the short term cash needs of their trust funds, but also addresses the fundamental effects that the restructuring of the national economy has had on their unemployment rate. In the meantime, the economic viability of the unemployment insurance system will require additional federal assistance.

Finally, I would like to recommend the following proposals and, in so doing note that they are designed to assist those states which take substantive action in 1983 to address their deficits. With this in mind, I recommend the following actions be taken by Congress:

(1) That the imposition of interest be waived or deferred to an agreed upon date under certain economic conditions.

(2) Institute caps to FUTA tax penalties which are appropriate and achievable.

(3) The expansion of the hearings on Federal Supplemental Benefits scheduled by the Committees of Senate Finance and House Ways and Means to include problems facing the solvency of the trust fund and the impact on the states of continued borrowing.

Should the above proposal be adopted by Congress, I believe that the states and Congress will be well on their way to resolving this crisis.

Chairman Ford. Mr. Moore.

Mr. Moore. Thank you, Mr. Chairman.

Just to be sure the record is clear, to Governor Blanchard I would say that I agree with you that we should not devise a national policy around three or four States. We pretty much did that with our interest provision. We made that so easy to keep from hurting three or four States in particular.

I think an exemption to the national policy ought to be very tight so maybe only the three or four worthiest States fit into that exemption. And that is why I am warning that I hope you will not come out of your national Governors conference with something that bails out a lot of States. And we have some States that have a record that cannot come anywhere close to yours in terms of abuse of the system and failure to do anything about it.

And second, a very good friend of Governor Blanchard's asked me to ask him a softball question. And to show that I have a heart, I am going to ask him the question. I will read it as it was written: Why did Michigan choose a surcharge over general funds for its interest payments?

Governor Blanchard. Let me check with my advisers. [Laughter.]

You are talking about the surcharge.

Mr. Moore. Right. He wrote the question.

Governor Blanchard. I do not know what is going on here. But I never believed in passing questions around.

Let me tell you this, that the reason was the general fund was not only in a terrible deficit but, as I outlined in my testimony, I inherited a budget with a projected $900 million deficit out of a budget of $4.5 billion. And if you know anyone in this building who is willing to stand up to a legislative body and call for a 38-percent tax increase the first month in office, delay payments to every single school district and city and college and university, I would like to know who they are.

And if somebody told me that Jim Blanchard would do that the first month as Governor of Michigan, I would have told them a couple of years ago they were crazy. But I have been forced to do that by the requirement of a balanced budget in the Michigan constitution and by the necessity to face the hard truth about the fiscal condition of Michigan.

Mr. MOORE. Governor, that was spoken like a true fiscal conservative. I wish we had a constitutional amendment like that, and that is precisely what we are doing. We are going to the House floor to call for a $200 billion or $300 billion deficit, and perhaps standby taxes of immense proportions to finance it. So I think you did the right thing, and I hope that we can work with you to minimize our deficits.

Thank you both very much.

Thank you, Mr. Chairman.

Chairman FORD. I would like to thank the two Governors Thornburgh and Blanchard for testifying before the subcommittee. We have set a date as of February 16, which is 1 week from today, for our markup session.

Any additional information that you would like for the committee to be privvy to before the markup session, we would like to have it in our hands before next Tuesday. That is not to say, I guess, with the very able assistance of my distinguished colleague from Louisiana, Mr. Moore. I am sure that we can move very rapidly to mark up some legislation. And how fruitful it will be for the States, I do not know. But we will do our very best.

But if there is any additional information that you would like to submit to the committee, we would be glad to have it before next Tuesday before the markup session to report this bill out.

The chairman of the full committee has indicated to us that we must have a bill ready to tack on to the social security bill within the next 30 to 45 days. So we will move to expedite this legislation right away.

Governor BLANCHARD. Thank you very much.

Governor THORNBURGH. Thank you, Mr. Chairman.

[Pause.]

Chairman FORD. The committee will be in order.

We are delighted to have two of our colleagues here with us this morning, and we are sorry that we have been running a bit over, but we are delighted to have you with us, the two of you here with us, Mr. Wise of West Virginia, and Mr. Bliley of Virginia. And as soon as we can get a little order in the committee room, we are going to ask that you proceed.

The committee will be in order.

Mr. Bliley, you may proceed at this time.

STATEMENT OF HON. THOMAS J. BLILEY, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. BLILEY. Thank you, Mr. Chairman, and members of the committee. I appreciate you giving me this opportunity to come before you today. I am sure that you will also appreciate the testimony to be presented by the Secretaries of Commerce and Human Resources from the Commonwealth of Virginia who will follow us later today.

I think it is important that the subcommittee and the full committee come to terms with the biggest problem facing Americans today; that is, the problem of unemployment and the concomitant loss of that unused human potential. It is imperative that we in the Congress offer some relief to workers who are unemployed through no fault of their own.

I commend the chairman for holding these hearings on extending Federal supplemental benefits and for offering the continued Federal support necessary for unemployed Americans to survive during this terrible economic period.

I would sincerely urge the subcommittee to pay close attention not only to the needs of the unemployed but also to the burden shouldered by employers. In the face of rising employments costs, most recently the increased Federal unemployment tax, our businesses are finding it difficult to maintain employment levels, much less create new jobs.

With this in mind I encourage the subcommittee to attend to the problems of unemployment taxpayers as well as unemployment benefit recipients. I would specifically encourage the subcommittee to address the Labor Department's decision to fund Federal supplemental benefits through the extended unemployment compensation account rather than from general fund revenues as intended by the Congress in the Tax Equity and Fiscal Responsibility Act of last year.

On a different note, I want to congratulate members of the subcommittee who worked on the Job Training Partnership Act last year and helped secure its passage.

As you may know, last year I was joined by over 65 of our colleagues in the House in sponsoring legislation to amend the Federal Unemployment Tax Act [FUTA], and the Wagner Peyser Act. This legislation addressed two of the problems associated with the Federal unemployment system: One, the funding inequities under the then current distribution formula; and two, the issue of management of State trust fund balances.

I was very pleased that the Job Training Partnership Act substantially addressed the first segment of this legislation and the shortcomings of the Wagner Peyser Act by introducing a new formula variable: State civilian labor force figures.

Virginia now feels that she and a number of other States receive a more fair share of job training funds. In addition, the legislation which I will again introduce will no longer address the fundamental distribution problems as it did a year ago.

The second portion of the bill I introduced the last year is still very much worthy of consideration. This part of the legislation addressed the loss of investment capability owing to Federal management of State trust funds. When the Federal Unemployment Tax Act was passed in the 1930's, not all States were in a position to handle the responsibilities created. Several States did not even have employment service and unemployment insurance divisions at that time, but that was over 40 years ago.

States now by law must and do have these agencies, and most States also have separate investment divisions that handle State revenue investments other than employment tax revenues. It is this side of the FUTA that I hope the subcommittee will look into, because FUTA and the Social Security Act mandate that States place their employment tax revenues in trust funds administered by the Federal Government. Many States have lost valuable investment capabilities while the Federal Government lends the money to itself.

Many of these States feel that they could better manage and invest these moneys, and Virginia is no exception. Just as an example, the Virginia Employment Commission and other employment commissions around the country discovered last year that many State investments were averaging several percentage points above the interest that the Federal Government was crediting to the State trust funds through its management of these funds.

My bill sought to allow States to exercise an option to manage their own trust funds. Giving States this authority would entail an enormous responsibility, but it is one that the States can handle. It could also mean millions of dollars annually in extra investment income across the country.

And so, as the subcommittee begins its search for methods to strengthen States abilities to cope with unemployment claims, I would urge you to give this proposal serious consideration.

Among the suggestions I have heard for increasing revenues this proposal represents by far the least painful alternative. Senator Warner and I and others will soon introduce new legislation in this area. In fact, we hope to have the bill ready in the House by Monday, and I hope that we can appear before you at that time to examine its prospects with you.

At this point, with your indulgence, Mr. Chairman, I would ask permission to have inserted in the record the letter from Senator Warner to you and the members of the subcommittee.

Chairman FORD. Without objection, it will be made a part of the record.

[The letter follows:]

U.S. SENATE,
Washington, D.C., February 8, 1983.

Hon. HAROLD E. FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Rayburn House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: You will recall that, last year, Congressman Bliley and I introduced identical legislation, H.R. 6088 and S. 2360, which sought to redress inequities in the Federal Unemployment Tax Act (FUTA).

Since the introduction of our bills, the combination of increased depletion of employment services around the country, coupled with focused attention on this issue, led to several changes in federal law. Specifically, changes similar to those we were advocating in our legislation were enacted in the Training for Jobs Partnership Act, addressing the formula disparities in the distribution of federal funds to the states. Those changes, in combination with adjustments to FUTA in the Tax Equity and

Fiscal Responsibility Act, partially eased the financial strain Virginia and other states were experiencing.

We are now developing new legislation to enhance the actions already taken by Congress. Our bill will address those provisions of H.R. 6088 and S. 2360 which are yet unresolved.

Before introduction of our new bill, however, we are examining research pertinent to this topic. I commend you for the hearings you have called which exemplify the complexities of the Federal Unemployment Tax Act which must be considered. I am gratified that you and your Subcommittee are addressing this critical problem early in this 98th Congress, and am looking forward to working with you towards the most equitable resolution of the problems states are facing in providing employment services.

With continuing best wishes.

Sincerely,

JOHN W. WARNER.

Mr. BLILEY. Again, Mr. Chairman, and members of the committee, I thank you for this opportunity to appear.

Chairman FORD. Thank you very much.

Mr. Wise.

STATEMENT OF HON. ROBERT E. WISE, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Mr. WISE. Thank you, Mr. Chairman, members of the subcommittee, good morning.

Unemployment in West Virginia is largely responsible for my being here today. As a Congressman for too many months I have passed the unemployment compensation office on Broad Street in Charleston, the capital city, at dawn. A line always circles the block. The line grows.

During my campaign going door to door I visited some communities in the middle of the day where everyone was home and had been home for the better part of the year without a job—a job that they had held at the Kaiser Aluminium plant in Ravenswood, W. Va., or the Union Carbide Technical Center in South Charleston or United States Steel's No. 9 coal mine on Cabin Creek.

Your subcommittee is fully aware of the plight of the unemployed. I need only tell you, Mr. Chairman, that my congressional district is the worst case scenario. West Virginia is at the top of the list of unemployment rates in each of the States—presently 16.4 percent. That takes into account a dramatic increase in joblessness over the past year alone, 7.4 percent. Five of the fourteen counties I represent have an unemployment rate over 20 percent. Six of the remaining nine counties have unemployment rates higher than the State's, and in some counties the unemployment rate alone jumped three or four points in just the last month.

But there is more to relate than just the statistics, Mr. Chairman. Food banks are an institution in many communities in my congressional district and elsewhere in West Virginia. If there were an epidemic of joblessness anywhere in the Nation, it is certainly in my State; and there is no light at the end of this tunnel.

It will take time for our coal mines to come back, our factories to start manufacturing again, and our people to be trained for jobs that presently do not exist. One of the major newspapers in the State recently published a poll showing that a staggering 88 percent of West Virginians hold the belief that the lack of jobs is the absolute most critical problem we face today, that over many of the other problems we face today. Concern for the continual and desperate need to build and improve roads in the mountainous Appalachian region, concern with the high cost of living, high taxes, high utility rates, our schools, care for the elderly, hospital costs—none of these pressing problems cam anywhere near the level of concern with unemployment.

With unemployment so serious a problem, you can imagine how severe the need is for unemployment benefits. Nationally only half of the 12 million out of work are covered by State unemployment insurance, and West Virginia has the highest rate in the Nation of workers eligible for benefits.

Consider that when the Nation went through a recession in the mid-1970's, 30 percent more unemployed workers received benefits than do presently. We have seen nationally over the past year and a half 5 million workers exhaust their benefits and another million lose their extended benefits. Of the 900,000 unemployed workers receiving Federal supplemental benefits, 135,000 have already exhausted or will exhaust these benefits soon. The remaining 765,000 will run out of benefits in the coming weeks.

West Virginia's Gov. John D. Rockefeller on a near bankrupt State budget has proposed $20 million be spent to retrain the unemployed and give them temporary work. Without Federal assistance, however, it will be extremely difficult for West Virginia or any of the States to provide some relief for our unemployed until they can find jobs.

For the record, Mr. Chairman, I would like to include a letter I received a few weeks after my election from the president of the State senate and the speaker of the West Virginia House of Delegates. It shows how vital it is that Washington take a most active role in providing relief for our struggle in State governments.

Without question Congress must extend the emergency program for Federal supplemental unemployment benefits beyond the March 31 expiration date. Those who have exhausted their maximum 55 weeks of benefits must be allowed to collect more. With an economic recovery nowhere in sight, at least from State, Mr. Chairman, this is the very least we can do.

Thank you very much.

Chairman **FORD**. Mr. Wise, the letter you made reference to will be made a part of the record.

Mr. **WISE**. Thank you.

[The letter follows:]

STATE CAPITOL,
WEST VIRGINIA LEGISLATURE,
Charleston, W. Va., December 16, 1982.

Hon. BOB WISE,
Congressman Elect, Charleston, W. Va.

DEAR MR. WISE: The Joint Committee on Government and Finance has directed us to communicate to you its recommendation that, if Congress extends the number of weeks of unemployment compensation under the Federal Supplemental Compensation (FSC) Program, 100% of the cost for these extended benefits be provided by federal funds. The Joint Committee also recommends that Congress provide 100% federal funding of the extended benefits currently provided under the Federal-State Extended Unemployment Compensation Act of 1970.

The Joint Committee makes these recommendations because the economic conditions that are causing extensive and prolonged unemployment are a national problem and the employers' funds in many states and the states themselves cannot bear any additional financial burdens.

Very truly yours,

WARREN R. MCGRAW,
CLYDE M. SEE, Jr.,
Cochairmen, Joint Committee on Government and Finance.

Chairman FORD. Let me raise a question: The administration is in opposition to any additional weeks of Federal supplemental compensation benefits. We know the maximum amount of weeks would go up to 55, as mentioned in your statement.

You are advocating now that we extend that beyond the 55 weeks; is that correct?

Mr. WISE. Yes, sir, I am. May I comment on that, Mr. Chairman?

Chairman FORD. Sure.

Mr. WISE. The reason is that the administration—I noticed this in the state of the Union message—the administration has never been to Boone County, W. Va., where I would say 35 percent of coal miners are either out of work or working 2 or 3 days a week. It has not been to Jackson County where the sole employer, Kaiser Aluminum, has had more than half of it force laid off for the past 2 years. It has not been to Roane or to Calhoun Counties where the unemployment is running 30 percent, and when the State hospital closes down, there will be no major employers left in the area.

Chairman FORD. They are saying there must be a cutoff at some point and that we must at some point, whether it is 55 weeks or 50 or 60 weeks, we must have a cutoff.

Mr. WISE. I guess I also heard the administration say we are on the mend, and we just want to have some time to get mended. But please consider also the situation in my State, and I do not say this lightly.

West Virginia is basically a coal mining and manufacturing State. Coal mining follows behind the Nation in terms of going into a recession because the contracts are slow to expire, but when they do they are not renewed. The result is that when the economy is beginning to climb out, West Virginia will follow 9 months behind, and so historically that has always proven the case. So that we are going to be bottoming out after everyone else is starting to come back, and perhaps we are seeing it, and I hope we are seeing that process begin now.

But at least if you hold us to 55 weeks, you will have many people that will simply run through their benefits long before we can ever regain the hope that the mines will be working again, and the chemical plants, and the steel plants will be manufacturing again.

Chairman FORD. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

I want to congratulate and welcome both our colleagues to the committee.

Mr. Wise, I would say to you that your Kaiser Aluminum plant uses the alumina produced in my district, and that plant just closed down in my district.

Mr. WISE. You just lost a couple of pot lines, I heard the other day. We have had all four shut down for more than a year now.

Mr. **Moore**. Well, we have now shut down completely making the alumina to send to your plant. We have lost 400 employees, and we do not know when that is going to come back. So you and I share a common industrial misfortune.

Thank you both for coming before the committee.

Chairman **Ford**. Mrs. Kennelly.

Mrs. **Kennelly**. No questions, Mr. Chairman.

Chairman **Ford**. I would like to thank our colleagues for testifying before the committee. Thank you very much.

Mr. **Wise**. Thank you, Mr. Chairman.

Mr. **Bliley**. Thank you, Mr. Chairman.

Chairman **Ford**. From the Commonwealth of Virginia, on behalf of Governor Robb, we have one of our former colleagues, and I would like to personally welcome Dr. Joe Fisher, who I served with on the full Committee on Ways and Means for a number of years. I would like to also welcome back Dr. Betty Diener, from the Virginia Department of Commerce and Resources, to welcome you back before the committee.

And, Joe, it is always a delight to have such a distinguished former Member of the Congress to come back in a role that you are participating in today.

The Chair will recognize you, Dr. Fisher, at this time.

STATEMENT OF JOSEPH L. FISHER, SECRETARY OF HUMAN RESOURCES, ON BEHALF OF GOV. CHARLES ROBB, COMMONWEALTH OF VIRGINIA, ACCOMPANIED BY BETTY J. DIENER, SECRETARY OF COMMERCE AND RESOURCES

Mr. **Fisher**. Thank you very much, Mr. Chairman.

I remember very pleasantly, even affectionately, sitting beside you for several years.

Chairman **Ford**. I do not smoke cigarettes any more, Joe.

Mr. **Fisher**. You still give me credit for breaking your smoking habit.

Chairman **Ford**. That is correct.

Mr. **Fisher**. I hope I can do as well today. [Laughter.]

With me today is Dr. Betty Diener, who is secretary of commerce and resources in Virginia. She will carry the continuing responsibility for the work of our unemployment commission, the unemployment insurance, and employment placement activity. I am very pleased she can share this with me today.

I will not take too long. We have submitted some testimony. The unemployment system has been with us, as you know, for half a century, and I have been associated with it one way or another for more than 40 years. It is an established Federal/State private system. It is now in trouble and needs overhauling.

It faces several immediate problems and even more difficult long-run problems. The system is broke or on the verge of it in all of its funds and accounts, and I think those who worked over the span of 50 years on it would be most distressed to find that their brainchild had run into such severe difficulties.

While you obviously just apply a few patches and some of them within a few months, because of so many people depending on the system we hope very much that you will seek even in applying the patches to make them consistent with longer run solutions to the problem without which it is my conviction that this committee and the Congress will be applying patches every year for as far ahead as I can see.

It is truly alarming to realize that insolvency has so completely overtaken this system. Virginia is now in a very modest way a borrower for the first time, and in a State like ours even to borrow a little from the Federal Government is traumatic.

We sympathize with the States that are much deeper into it and hope they and us and everybody can be rescued from this particular indignity.

In conjunction with Idaho, Oregon, and Texas, Virginia has participated in developing a document which describes the problems that you are dealing with. Mr. Chairman, I would like to submit this document entitled "Status of Employment Security System in 1982" to the committee for your record and for your use. It is a substantial document, and these four States have put up money to have it prepared.

Chairman **Ford**. Without objection, it will be made a part of the record, Dr. Fisher.

[The material follows:]

STATUS OF THE EMPLOYMENT SECURITY SYSTEM IN 1982

Prepared by

Chambers Associates Incorporated
Suite 1000
1100 Seventeenth Street, N.W.
Washington, D.C. 20036

NOTE:

This document was completed in August, 1982. The estimates presented in the analysis are from the fiscal year 1983 budget documents upon which initial appropriations were based. In a short while, a revision of Chapter 1 will be made available which includes updated estimates which are included in the fiscal year 1984 budget documents.

Erratum

On page 78, in the second full paragraph, the word deliberation in line 8 should be "duration."

EXECUTIVE SUMMARY

The U.S. unemployment insurance system will provide compensation to over 11 million unemployed workers during the next twelve months. The UI system has assisted hundreds of millions of unemployed persons since its inception in 1935. In addition, the United States Employment Service, partner to the unemployment insurance system, has found jobs annually for about 4 million job seekers during recent years. Americans believe that they can receive either unemployment assistance or help in finding work through the state employment security agency offices in their local community. However, without significant legislative and administrative reforms, it may no longer be possible for Americans to receive this assistance.

The employment security system, which includes unemployment insurance, employment services and labor market information, has functioned effectively over its history, responding to recessions, war and economic expansion with equal vigor. The system has relyed almost entirely upon employer taxes which are dedicated solely to financing the costs of these programs. During the 1974-75 recession, the financial reserves in this important system were depleted but there was a partial recovery of financial solvency during the last years of the 1970s. The recession of 1982 has again, and more seriously, depleted the reserves in the system. Over twenty states have received or will require loans to continue paying benefits and advances have been required in other federal accounts as well. The magnitude of financial insolvency in the employment security system is so great that federal general revenue advances (loans) may be needed in each type of Unemployment Trust Fund (UTF) Account sometime during fiscal year 1983 and 1984. The accumulated outstanding loans to all UTF accounts from general revenue are estimated to reach between $17.6 and $21.7 billion in 1984.[1]

Separate from the issues of adequate financing for the employment security system are serious problems resulting from entangled administrative arrangements. The management of the system is unnecessarily complex and results in obvious costs. Unfortunate disincentives to achieving costs savings, particularly through automation of programs, inhibits effective management of the state agencies. Furthermore, some of the fiscal management imposed on the system is creating serious inequities in the distribution of administrative resources among the states.

Another set of problems confronting the employment security system involves the question of responsibility to pay the costs of the system. Presently, almost the entire costs of both benefits and administration are technically the responsibility of employers. If employers are to continue to bear the full costs of this system, one or a combination of changes must occur. Payroll taxes may be increased sharply, the benefits and services the system provides may be reduced, or Federal general funds may be infused into employment security accounts. There are serious implications to each of these choices.

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[1] The lower estimate was made in the Mid-Session Review (July, 1982) and the higher projection was part of the estimates contained in the President's 1983 budget package. For this discussion, the President's Budget estimates are utilized as the benchmark. The Appendix provides comparisons between the President's Budget figures and the July estimates contained in the Mid-Session Review.

As part of the Fiscal Responsibility and Tax Equity Act of 1982, P.L. 97-248, Congress increased federal taxes on employers. The FUTA amendments will generate additional revenues for the repayment of outstanding Unemployment Trust Fund debts, the current costs of extended benefits and the costs of administering the federal-state employment security system. The increase in taxes will be implemented in two stages, first in 1983 and again in 1985. While the modifications to the FUTA tax mechanism promise to relieve some of the fiscal problems in the Unemployment Trust Fund, these changes do not remedy many difficulties in the system. For example, the imbalances in the management of the system are not addressed by these amendments. Nor does the new law guarantee improved funding for the basic labor exchange which has experienced debilitating budget reductions in fiscal years 1982 and 1983.

This paper was commissioned in order to bring wider attention to the crisis which has evolved in the financing and management of the employment security system. The discussion to follow will describe the financial status of major accounts in the Unemployment Trust Fund, and will provide a basis from which to move toward a serious and comprehensive reform of the employment security system. The highlights which follow summarize the major points discussed in the paper:

REVENUES FOR FINANCING THE EMPLOYMENT SECURITY SYSTEM

The major sources of revenue which finance the employment security system are payroll taxes paid by employers. These taxes are collected using a wage base and rate structure very much like the Social Security tax (FICA). With regard to the federal tax base and rate, neither has been sufficient to generate adequate revenue to meet the federal costs in the system. The increased wage base and rate should gradually improve the status of most federal accounts. In the case of state taxes, some states have solvent taxing mechanisms, which ensure the state's obligations are met, and some states do not have adequate taxing mechanisms. Changes in the federal taxing structure do not necessarily ensure improvements in state tax structures.

THE STATE BENEFIT TRUST FUNDS

The projections provided in the 1983 Presidential Budget, for the state benefit trust funds, reveal that incoming revenue will continue to be less than outlays for benefit payments until at least 1985. In 1982, $21.08 billion in state trust funds outlays will be made, while only $12.54 billion in taxes (income) will be collected. The deficit of $8.53 billion will be offset by utilizing a combination of state trust fund reserves and direct loans to the states. As many as twenty-three states may borrow funds to pay benefits during fiscal year 1983, and many may have to to borrow in 1984 as well. The total accumulated loans made to state benefit trust funds are projected to reach $16.13 billion in 1984 under the February economic assumptions contained in the President's Budget. Thus, the bulk of accumulated debt in the system is due to state benefit trust fund insolvency.

The outlook for repayment of these loans has improved with the imposition of penalties on states for borrowing and for failure to repay loans in a rapid fashion. The penalties, assessed against the employers in those states through increases in federal taxes, will go toward repayment of the principle owed, and additional assessments will be charged to employers to finance interest on loans which are due but not paid. Between 1982 and 1987, $8.142 billion or more in tax penalties will be paid by the employers in twenty-four states. In some states, in spite of the stiff recoupment of funds through increased taxes, the principles and associated interest will not be repaid in the foreseeable future. Further recessionary periods will only exacerbate the situation faced by several states, and the employers in these states will suffer under ever increasing tax burdens.

THE FEDERAL LOAN FUND

The Federal Unemployment Account was established for purposes of providing repayable loans to states which are unable to pay benefits. The source of revenues for this fund, under statute, is excess federal payroll tax, held in trust, for the provision of loans. The Federal Unemployment Account has not had sufficient revenues available to make loans since 1975. Thus, it is an account which first borrows federal general revenue and then loans this general revenue to the states.

THE EXTENDED UNEMPLOYMENT COMPENSATION ACCOUNT

The Extended Unemployment Compensation Account is currently dedicated to the payment of the federal share (50%) of extended benefits. These benefits are additional weeks of unemployment compensation paid to claimants in states experiencing sustained, high unemployment. The Extended Unemployment

Compensation Account (EUCA) has required general revenue advances almost every year since the 1974-75 recession in order to pay the federal costs of extended benefits and the 1975-78 federal supplemental benefits. The EUCA fund will owe $7.53 billion in federal general revenues at the end of 1982. The federal general revenues which will finance the benefits provided by the recently enacted Federal Supplemental Compensation program, between September and March 1983, will also be channeled through this account.

THE EMPLOYMENT SECURITY ADMINISTRATION ACCOUNT

The final major account in the Unemployment Trust Fund is the Employment Security Administration Account (ESAA). It is both a holding account and, after all required transfers from it are completed, it is also the source of administrative funds for operating the federal and state employment security system. Statutory constraints, pressures to repay outstanding advances in other accounts, and increased costs of doing business have combined to leave the ESAA inadequate to finance the legitimate costs of the employment security system. In fact, the inadequacies in ESAA for administrative costs resulted in the near total elimination of the Employment Service in the fiscal year 1982 budget cutting exercise. Congress first acted to reduce the Employment Service dramatically, then as unemployment rates soared, acted again to partially restore the administrative resources required to maintain a public labor exchange system. The outlook for administrative funding for the state employment security agencies is bleak, as ESAA may be strained, in spite of the increase in FUTA taxes, beyond its capacity to maintain the system even at its reduced size. Further reductions in staffing and in the number of local offices are scheduled for fiscal year 1983 which begins October 1, 1982. In the face of 9.8 percent unemployment rates, reducing the only nationwide labor market intermediary is difficult for many to accept.

OPERATING THE EMPLOYMENT SECURITY SYSTEM

Section II of the following paper describes some of the cumbersome methods by which the federal partner oversees the operation of the state employment security agencies. These administrative arrangements, combined with the unprecedented reductions in state administrative budgets, have resulted in considerable discussion about methods by which the management of the system can be streamlined, rebalanced and improved. Analysis of the management and allocations issues in Section III reveals that there are a number of questions about the equity of financing the benefit and administrative costs of the employment security system. Issues involving the equitable division of the responsibility to pay the costs of the several parts of the system are also identified. Finally, a review of recently enacted and pending legislation affecting the employment security system is presented in Section IV.

CONCLUSIONS

The employment security system is struggling with combined problems: inadequate resources, inequitable distribution of resources, antiquated management arrangements, and confusion of mission. It is, at this point in time, difficult to determine exactly which problem should be tackled first.

It is impossible, however, upon examination of the facts, to avoid the conclusion that a comprehensive package of solutions, addressing a wide range of factors, will be necessary to restore this system to financial soundness and administrative efficiency.

INTRODUCTION

The U.S. unemployment insurance and employment services system is faced with critical financial shortages in the 1980s. This situation is the result of many factors, including high unemployment in the mid- and late 1970s, coupled with the deep recession of 1981-82. Projections, published in the Administration's 1983 budget, indicate that every major account within the Unemployment Trust Fund is either insolvent or precariously low on reserves. States in the Northeast, Mid-Atlantic, and Midwest are expected to require substantial loans in both 1982 and 1983. Cash flow problems may result in advances being made to one or more of the federal accounts, as well, during the remainder of this recession.

The unemployment insurance and employment services system provides several basic services and unemployment compensation to persons legally qualified to work in this nation. When covered workers become unemployed through no fault of their own and meet the monetary and personal qualifying requirements, they will be entitled to receive weekly unemployment compensation benefits. These benefits are meant to assist individuals through short-term spells of involuntary unemployment, as well as to forestall economic erosion of communities and the nation, while maintaining a consolidated work force during periods of economic decline. During periods of stagnation, the unemployment insurance system can infuse dollars into the economy, acting to stimulate spending when necessary. Additionally, this system assists a wide variety of individuals seeking employment, including new entrants and re-entrants to the labor force who may need special assistance, as well as other job seekers who are already prepared to accept employment. A natural by-product of the system, information about employment and unemployment, is made available to job seekers and employers alike to assist in making prudent decisions regarding local labor markets.

The focus of this paper is to describe the nature of the funding crisis in the basic federal-state employment security system, with a view toward increasing awareness of the more problematic issues involved. Additionally, attention will be directed to some of the administrative arrangements in the federal-state management of this system. Questions will be raised regarding the appropriate distribution of the responsibility to pay the costs of both benefits and administration of the employment security system. Last, a discussion of recently enacted and pending legislative initiatives, with the potential improving both the funding and management of the employment security system, will be presented.

The depth and complexity of the problems facing the employment security system will not be repaired with simple quick-fixes or patch-work solutions. While interim solutions may be easily identified, the long-term integrity of the employment security system depends upon a thorough evaluation of the problems in the system and implementation of a comprehensive solution to these problems.

SECTION I

FISCAL BUILDING BLOCKS OF THE EMPLOYMENT SECURITY SYSTEM

The employment security system is a federal-state partnership authorized in federal statutes, and in conforming state laws. The basic federal statutes in the Social Security Act[2] which define the unemployment insurance system include:

- Title III - Grants to States for Unemployment Compensation Administration,
- Title IX - Miscellaneous Provisions Relating to Employment Security, and
- Title XII - Advances to State Unemployment Funds.

In addition, Chapter 23 (Federal Unemployment Tax Act) of the Internal Revenue Code[3] defines the federal employer tax, given the short name of FUTA. The Wagner-Peyser Act of 1933 established the United States Employment Service and required state legislatures to authorize a state employment security agency (SESA) to administer the program on the local level.

The state laws specify the details of both programs including, but not limited to, taxation of employers, qualifying requirements for claimants, and administrative organization. The system operates in the fifty states, and the U.S. territories.[4]

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[2] The initial statutory framework, signed into law on August 14, 1935, has remained basically unchanged to the present. In May, 1937, the U.S. Supreme Court declared the new federal-state unemployment compensation system constitutional and benefits were paid through the system beginning in 1939. Title XII, enacted in 1954, rounded out the present statutes authorizing the UI system.

[3] The taxing provisions now codified in the IRS code were originally included in title IX of the Social Security Act. P.L. 76-1, approved in 1939, made this transfer.

When the Social Security Act was enacted in 1935, title III linked the newly authorized unemployment insurance (UI) system with the U.S. Employment Service established earlier by the Wagner-Peyser Act. Title III of the Social Security Act requires unemployment insurance benefits to be paid solely through Employment Service (ES) offices (or such other agencies as the Secretary of Labor may approve). The Congress intended that claimants receive benefits only so long as they were involuntarily unemployed. By requiring the claimant to report to the local public employment office, each claimant would be exposed to job opportunities available in the community. The basic link between these programs created in 1935 has remained the foundation of the employment security system. This link has also been used to justify the financing of both the UI and ES programs from federal unemployment tax revenues.

As the unemployment insurance system has matured, the means by which claimants are exposed to available work have changed. Most states no longer require that claimants report in-person each week to the local Employment Service office, but still test eligibility by regularly referring claimants to work which is available in the community. Additionally, a natural by-product of the ES and UI programs, basic data on employment and unemployment in labor markets, has become an institutional component of the employment security system.

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[4] In the interest of brevity, reference to the states will include Puerto Rico, the Virgin Islands, the District of Columbia, as well as the other territories.

Revenue Sources for the Employment Security System

There are two basic taxes collected to fund employment security programs. First, there are state taxes, collected by the states, for purposes of financing the costs of each state's unemployment insurance benefit payment program and the state portion of the federally required, extended benefit program. (Most states pay basic or regular UI benefits for up to twenty-six weeks, after which, claimants may be eligible to receive up to an additional thirteen weeks of extended benefits during periods of high unemployment.) In all states, employers pay the majority of the taxes, often referred to as contributions, but in Alabama, Alaska and New Jersey, employees make a small contribution as well. Upon collection of these tax contributions, states transmit the revenue to the Unemployment Trust Fund (U.S. Treasury) where it is held in individual state trust funds. The state trust fund can only be used to pay regular benefits to the claimants of that state, and the state share (50 percent) of extended benefits. A state's trust fund assets may not be loaned to any other state, pooled or utilized by any other state, or used for any other purpose beyond benefit payments.

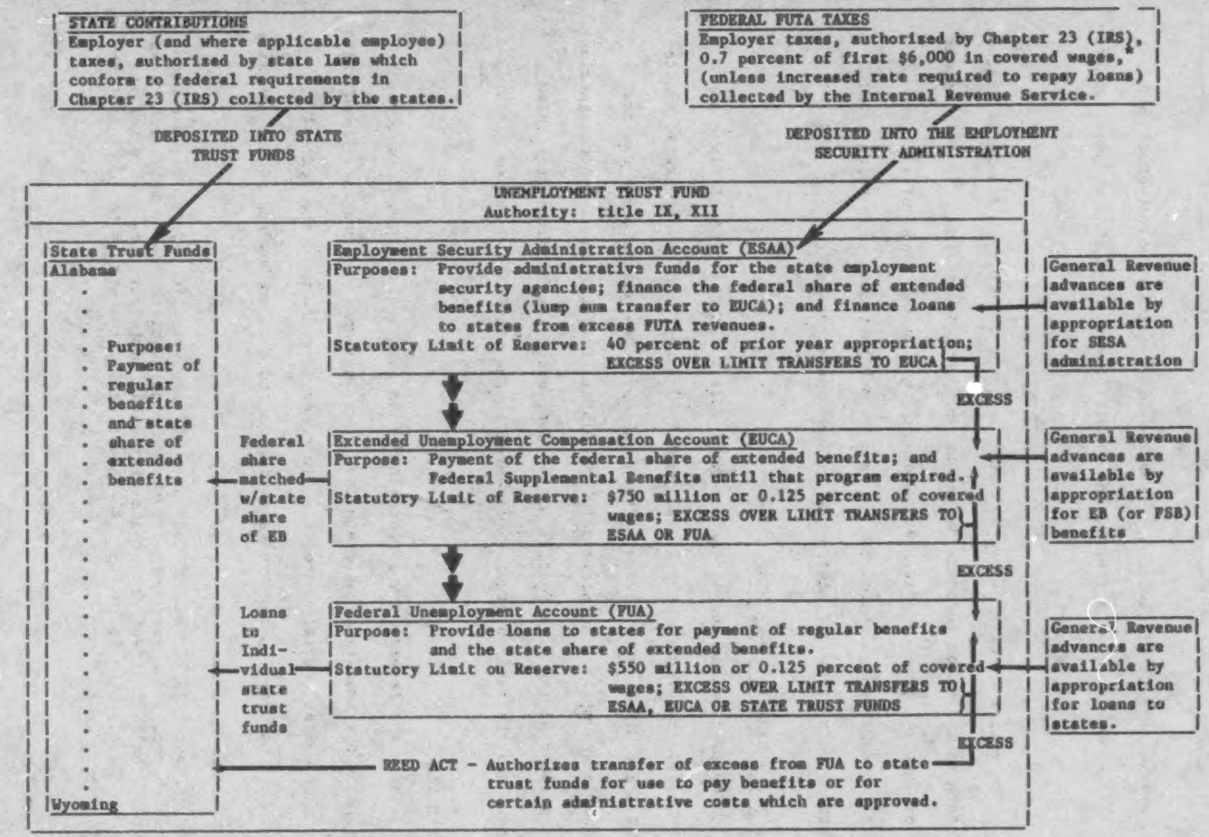
The second tax is the federal tax, authorized by the Federal Unemployment Tax Act (FUTA), and collected by the Internal Revenue Service. These funds are placed in the Employment Security Administration Account, housed in the Unemployment Trust Fund. The revenues are dedicated, and under current law may be used only for the following purposes:

1. Administation of the federal-state employment security system;
2. Payment of the federal share (50 percent) of extended benefits, or when general revenue has been advanced to make these payments, repayments of those advances;
3. Provision of loans to states with insufficient benefit trust fund revenues to pay regular benefits or the state's share of extended benefits, and for repayment of these loans; and
4. Between 1975 and 1978, payment of Federal Supplemental Benefits, authorized by P.L. 93-572, which expired in 1978, and repayment of general revenue advances made to finance the costs of this emergency supplemental benefit program.

In Chart I, the Unemployment Trust Fund is depicted with its several accounts, the source of revenue for each of these accounts, and the conceptual taxing mechanisms at the state and federal levels.

The great majority of the revenues in the employment security system are dedicated to the payment of benefits and the operation of the unemployment insurance component of the employment security system. The basic underpinnings of the system involve well understood insurance principles. For example, the risk of relatively short-term unemployment is insured by pooling resources from a state's employers for the benefit of individuals exposed to the risk in that state. The risk of longer-term unemployment, beyond twenty-six weeks in most cases, is shared by the nation's employers and the resources for the extended benefit program are pooled at the federal level. Employers' premiums provide almost all the funds for the payment of benefits and for the overhead costs associated with delivering these benefits to the beneficiaries of the system. Employers have financed this insurance for workers because it permits the experienced work force to stay in place during periods of economic decline. The system is subject to actuarial estimating which analyzes the

CHART I - THE UNEMPLOYMENT TRUST FU`': Major Fund Sources and Accounts



STATE CONTRIBUTIONS
Employer (and where applicable employee) taxes, authorized by state laws which conform to federal requirements in Chapter 23 (IRS) collected by the states.

DEPOSITED INTO STATE TRUST FUNDS

FEDERAL FUTA TAXES
Employer taxes, authorized by Chapter 23 (IRS), 0.7 percent of first $6,000 in covered wages,* (unless increased rate required to repay loans) collected by the Internal Revenue Service.

DEPOSITED INTO THE EMPLOYMENT SECURITY ADMINISTRATION

UNEMPLOYMENT TRUST FUND
Authority: title IX, XII

State Trust Funds
Alabama
Purpose: Payment of regular benefits and state share of extended benefits
Wyoming

Employment Security Administration Account (ESAA)
Purposes: Provide administrative funds for the state employment security agencies; finance the federal share of extended benefits (lump sum transfer to EUCA); and finance loans to states from excess FUTA revenues.
Statutory Limit of Reserve: 40 percent of prior year appropriation; EXCESS OVER LIMIT TRANSFERS TO EUCA

General Revenue advances are available by appropriation for SESA administration

EXCESS

Extended Unemployment Compensation Account (EUCA)
Purpose: Payment of the federal share of extended benefits; and Federal Supplemental Benefits until that program expired.
Statutory Limit of Reserve: $750 million or 0.125 percent of covered wages; EXCESS OVER LIMIT TRANSFERS TO ESAA OR FUA

Federal share matched w/state share of EB

General Revenue advances are available by appropriation for EB (or FSB) benefits

EXCESS

Federal Unemployment Account (FUA)
Purpose: Provide loans to states for payment of regular benefits and the state share of extended benefits.
Statutory Limit ou Reserve: $550 million or 0.125 percent of covered wages; EXCESS OVER LIMIT TRANSFERS TO ESAA, EUCA OR STATE TRUST FUNDS

Loans to Individual state trust funds

General Revenue advances are available by appropriation for loans to states.

EXCESS

REED ACT - Authorizes transfer of excess from FUA to state trust funds for use to pay benefits or for certain administrative costs which are approved.

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*P.L. 97-248, enacted September 3, 1982 increases the rate to 0.8% and the base to $7,000 as of January 1, 1983 probable occurance of the risk of unemployment against the potential beneficiaries, and attempts to finance the predictable outlays through small contributions over a long period of time.

The remainder of this section will describe the current financial status of each of the major accounts in the Unemployment Trust Fund. It will become clear that the present system is experiencing a higher level of risk and associated payment of benefits, as well as a higher cost of serving beneficiaries, than current financing mechanisms can accommodate.

The State Benefit Trust Funds

The projections and estimates which follow are the offical figures provided in the President's fiscal year 1983 budget, unless otherwise specified. The Mid-Session Review updates these figures and reflects the new economic assumptions authorized by the Administration. The Appendix contains comparisons of the Presidential budget estimates, the benchmark for this paper, and the revised figures presented in the Mid-Session Review in July.

State Taxes

While the federal law defines the broad parameters of the unemployment insurance system, it is the state laws that implement the program. Each state law must contain certain elements[5] in order to conform to the federal statutes; however, there remains a wide latitude as to how states may actually enact and operate their programs. This is probably most clear when examining the wide variety of taxation mechanisms and rates used by states for collecting state benefit trust fund revenue.

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[5] Chapter 23 of the IRS Code sets out the specific federal requirements to which each state law must conform. A finding of non-conformity results in loss of the FUTA offset credit and of federal administrative grants for the state. Thus, there is substantial incentive for the states to enact conforming laws.

The federal law defines those employees who are to be covered by unemployment insurance laws and requires that employer taxing mechanisms be experience rated. Therefore, employers, by virtue of state laws, must cover at least those persons defined as covered by federal law, which now includes 97 percent of persons working for wages and salaries in the United States. Additionally, the taxing system must recognize that some employers rarely cause involuntary unemployment for their employees, while others layoff employees regularly. The experience rating systems employed throughout the country require that employers pay higher taxes if they are responsible for high employee turnover and subsequently "experience" a greater number of unemployment insurance claims against their account. Employers with more stable employment patterns generally pay lower taxes.

The tax rates vary widely among the states. Most states utilize a series of schedules, which change as the state's trust fund grows or declines. The lowest rate charges, on the most favorable schedules, range from 0 to 1.2 percent, while the highest rates range from 2.7 to 10.0 percent. The maximum rates now exceed 4.0 percent in more than half the states. In states with reasonably low rates of unemployment and healthy trust funds, the employer tax rates are generally quite low. Conversely, in states experiencing higher unemployment rates, the employer tax rates tend to be higher. States which have required loans in the past have often instituted surtaxes on top of their experience rating system in order to raise sufficient revenues to repay their debts. An excellent reference for additional information on state taxing mechanisms is the Comparison of State Unemployment Insurance Laws, published by the U.S. Department of Labor.

State Collections

The states are expected to collect $12.54 billion in contributions from their employers during fiscal year 1982. State trust fund outlays for regular unemployment insurance benefits are estimated to be $19.47 billion, which will be paid to 11.2 million claimants. Of these claimants, 3.7 million or more are expected to exhaust their regular state unemployment insurance benefits. Some of these exhaustees will be eligible for extended benefits and the expected outlay for these benefits from the state trust funds is $1.61 billion. Therefore, the grand total of state benefit trust fund outlays projected for fiscal year 1982 is $21.08 billion.

Since only $12.54 billion in collections are estimated, the impact on the state trust funds (income minus outlays) is estimated to be -$8.53 billion. This negative impact must be made up from either the reserves in an individual state's trust fund or through loans made to cover the deficit. These fiscal year 1982 figures are predicated on the Administration's estimated average total unemployment rate of 8.9 percent for the year. This probably underestimates the actual unemployment rate for fiscal year 1982.

As many as twenty states may not have sufficient trust fund revenues to pay benefits in 1982. Since UI benefits are an entitlement to any individual who meets the qualifying requirements and who proves insurability on a weekly basis, states with insufficient trust funds must seek loans to pay benefits to those entitled to receive them. Total new borrowing is estimated to be $3.804 billion in fiscal year 1982. This will bring the accumulated indebtedness of the borrowing states to $9.49 billion. Some of these debts have existed since the 1974-75 recession, and, in one case, since 1973. Most indebted states will make repayments in 1982, amounting to $490 million.

In fiscal year 1983, the Administration estimates that total unemployment will average 8.1 percent for the year. This figure may be underestimated unless there is a sustained decline in unemployment beginning the summer of 1982. States are projected to collect $14.25 billion in taxes in 1983 and to pay $19.24 billion in regular UI benefits. There are expected to be 4.4 million exhaustees and some of these claimants will be eligible for extended benefit claims. The state share of extended benefits is estimated to be $670 million in fiscal year 1983. Again, the outlays will exceed the income to the state unemployment trust funds, by -$5.66 billion, or more, if unemployment is higher than estimated.

Borrowing will continue to be heavy in 1983 due to the sustained draw-downs on state benefit trust funds throughout the prior year. States are expected to borrow $5.128 billion in new loans to pay regular benefits and the state share of extended benefits. Interest on outstanding loans will become due for the first time in fiscal year 1982, and in 1983 the projected amount of interest payments will be $625 million. The total accumulated indebtedness of the state trust funds at the end of fiscal year 1983 is estimated to be $13.98 billion. State repayments of loans in fiscal year 1983 are projected to be $640 million.

The projections for the years beyond fiscal year 1983 are, of course, less certain. However, it is important to note that income to the trust funds is not projected to exceed outlays until 1985. The states are expected to require new loans of $3.32 billion in 1984 and $2.0 billion in 1985. The accumulated indebtedness of the state trust funds in 1984 is projected to be $16.13 billion, with very gradual declines anticipated in this overall indebtedness in 1985 ($15.99 billion).

Table I, which follows, summarizes the status of the state trust funds in terms of income, outlays, loans, repayments and interest on loans over the next several fiscal years. The figures clearly indicate there is a serious crisis in the ability of the existing federal and state benefit financing mechanisms to generate revenues to pay benefits. Part of the failure of the system to cover its costs is directly related to the national economy and its catastrophic rates of unemployment. The level of risk is far higher than predictions anticipated. Another contributing factor is that benefit trust funds in many states have not recovered from the significant draw downs experienced in recent recessions.

The low federal wage base of $6,000, above which no state is obligated to raise its state wage base until 1983, is also contributing to state insolvency. Originally, tax contributions were collected on total wages. When the wage base was established in 1939, the percentage of wages taxed was much greater than the current average percentage of 35.5 percent. In fact, in 1939 the wage base was set equal to the Social Security wage base for employer reporting convenience. The FUTA wage base, however, was not raised subsequently when the Social Security wage base was increased and has never been

Table I

Status of State Benefit Trust Funds

Assets, Liabilities, Transactions and Balances	FY 1982 estimated	FY 1983 estimated	FY 1984 estimated	FY 1985 estimated
		(billions of dollars)		
Total Collections (income)	$12.54	$14.25	$16.20	$17.24
Regular Benefit Outlays	19.47	19.24	17.61	16.04
Extended Benefit Outlays (state share)	1.61	.67	.14	.06
Total State Benefit Outlays	21.08	19.92*	17.75	16.10
Income Less Outlays (impact on trust funds)	-8.53	-5.66	-1.55	+1.14
New Borrowing	3.80	5.13	3.32	2.00
Accumulated Borrowing (includes loans made in prior years plus new loans)	9.48	13.98	16.13	15.99
Repayments of Loans	.49	.64	1.18	2.14
Interest Payable on Outstanding Loans	N/A	.625	1.056	1.175
Basic Economic Assumptions:				
Total Unemployment Rate	8.9%	8.1%	7.3%	6.6%
Number of Claimants (in millions)	11.2M	10.4M	9.7M	9.0M
Exhaustees (in millions)	3.7M	4.4M	3.7M	3.2M

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*Rounding may cause some differences in sums.

NA = Not applicable

Source: UI Outlook, Department of Actuarial Services, Employment & Training Administration (ETA), Department of Labor (DOL), February, 1982.

indexed as the FICA wage base now is. The National Commission on Unemployment Compensation in its final report, recommended that the FUTA wage base be raised, utilizing a phase-in period, to equal 65 percent of the average annual wage in covered employment.[6] When the wage base increases in 1983, the $7,000 wage base will only equal 39.2 percent of the average annual wage in covered employment.

There are presently no solvency requirements placed upon states, either as a conformity requirement or as a condition of borrowing. Initiating such solvency requirements is one method for ensuring adequate revenues to finance the costs of the benefit payment program. The practice of increasing the amount of compensation or its duration without concomitantly commiting revenues to cover the increased costs has also contributed to insolvency in several cases.

The Federal Unemployment Account FUA - The Loan Fund

Loans to states are provided from the Federal Unemployment Account, which was established by federal law solely for the purpose of lending funds to state trust fund accounts. The loan fund is meant to be financed by employer FUTA taxes after all other obligations have been met for administrative costs and for the federal share of extended benefits. The FUA account has not received excess funds from FUTA revenues in a number of years and thus has required federal general revenue advances itself, in order to allow the states to borrow funds for benefit payments. The status of the FUA account is described in Table II.

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[6] See Unemployment Compensation: Final Report, National Commission on Unemployment Compensation, U.S. Government Printing Office, July, 1980.

The balances and obligations in this account are important because, as demonstrated in Table II, state loans currently are being financed directly by Federal general revenue advances. During fiscal years 1982 through 1984, significant amounts of general funds are budgeted as UI obligations. This indebtedness contributes to the overall federal budget deficit. As pressures increase to reduce this deficit, it seems likely that pressures will also increase to reduce the magnitude of state borrowing as well.

It is significant to note that the FUA account has been insolvent (i.e., in debt to federal general revenue) since the 1974-75 recession. In the years prior to 1975, the FUA account did receive excess FUTA funds and did not rely on general revenue advances. The current insolvency in FUA may indicate the federal taxing mechanism is no longer generating sufficient revenue to meet all Unemployment Trust Fund obligations. On the other hand, some insolvency and its associated borrowing may have resulted when states have provided higher weekly benefits without associated increases in state revenues to finance the added benefit costs. The recent modifications to the FUTA rate and taxable wage base may improve this situation.

The Federal Unemployment Account is intended to be financed by FUTA reserves, and thus, the risk of state trust fund insolvency and state borrowing is intended to be financed by employers. The risk is defined as national and the funds are pooled from the federal employer tax and held at the national level. A philosophical point arises when considering that recently

Table II

Status of the Federal Unemployment Account
(in billions of dollars)

Borrowing Activities	FY 1982 Estimated	FY 1983 Estimated	FY 1984 Estimated	FY 1985 Estimated
New Loans to States	$3.80	$5.13	$3.32	$2.00
New Advances from General Revenue to FUA	3.30	4.50	2.00	0
Indebtedness				
Outstanding Loans (from all prior years plus current year) owed by states to FUA	9.49	13.98	16.13	15.99
Outstanding Advances (all prior years plus current year) owed by FUA to Federal General Funds	9.38	13.88	15.88	15.78
Repayments				
State Repayments to FUA (from increasing employer taxes)	.49	.64	1.18	2.14
FUA Repayments (Transfers) to General Revenue Fund	0	0	0	.10

Source: UI Outlook, Department of Actuarial Services, ETA/DOL, February 1982.

the risk of state trust fund insolvency has been temporarily financed by all taxpayers rather than just the employers. If part of the indebtedness from the 1974-75 recession were expunged, as suggested by the National Commission on Unemployment Compensation, then for the first time all taxpayers would share in the responsibility to pay the costs of extended benefits in the system. Under current law, however, all FUA financed loans must be repaid. Generally, repayments are made by employer, and where applicable, employee contributions.

The Extended Unemployment Compensation Account (EUCA) for Long-term Unemployment Benefits

The EUCA account is authorized by federal law and is housed in the Unemployment Trust Fund. The account provides for the federal share (50 percent) of extended benefits (EB), and will outlay $1.61 billion in fiscal year 1982 and $670 million in fiscal year 1983 under current projections. These funds are matched by the state share of extended benefits, meaning that the total national EB outlays for these two fiscal years is projected to be $3.22 and $1.34 billion, respectively.

The EUCA account was also the major source of federal financing for the Federal Supplemental Benefits (FSB) program. This program, which expired in 1978, paid out $6.2 billion in supplemental benefits from 1975 to 1978 to unemployed persons who had exhausted all other benefit entitlements. At one point, the FSB program was paying up to 26 additional weeks of benefits, extending a potential individual claim period to a maximum of 65 weeks in duration. The EUCA account owed $5.8 billion to general revenue for the costs of the FSB program and $2.9 billion for federal share of EB costs at the end of the 1974-75 recession. (During the last few months FSB existed, federal general revenue financed the cost of these benefits.)

The Extended Unemployment Compensation Account receives transfers from FUTA revenues under two statutes. The first statute provides funding for the permanent extended benefits program. The second law imposes a temporary FUTA surtax of 0.2 percent on employers. An examination of Table III reveals the proportion of the FUTA funds transferred to EUCA attributable to each statute.

The temporary 0.2 surtax was enacted by Congress in 1976, and was intended to make quick repayment of the advances made to EUCA from general revenue funds. These advances were required to meet not only the costs of FSB outlays, described above, but to cover the federal outlays for the extended benefits program during the recovery from the 1974-75 recession. Due to subsequent recessionary pulses, EUCA outlays have remained high into the 1980s. In fact, EUCA received $500 million in advances this year to finance the current outlays for the extended benefits program (federal share), although the advance may not be needed as fewer individuals are eligible to receive extended benefits due to restrictions enacted in P.L. 97-35. The remaining indebtedness in EUCA at the end of fiscal year 1982 is projected to be $7.53 billion, just 1.2 billion less than its 1977 high point.

Severe restrictions have been placed on the payment of extended benefits by the Congress in P.L. 97-35 (Omnibus Reconciliation Act of 1981). EUCA outlays will begin to drop dramatically, and the transfers from FUTA will be sufficient to meet EB outlay requirements. In 1983, repayments from EUCA to

Table III

Status of the Extended Unemployment Compensation Account
(in billions of dollars)

	FY 1982 Estimated	FY 1983 Estimated	FY 1984 Estimated	FY 1985 Estimated
Income (FUTA Transferred to EUCA)				
Total	$1.14	$1.20	$1.26	$1.32
Through 1982				
(.05)*	(.285)	(.300)	(.315)	(.330)
(.2)*	(.855)	(.900)	(.945)	(.990)
After 1982**				
(.12)*	-	(.450)	(.472)	(.495)
(.20)*	-	(.750)	(.788)	(.825)
Outlays (Federal Share-50%)	1.61	.67	.14	.06
New Advances from General Revenue (for current EB outlays)	.50	0	0	0
Repayments from EUCA to General Revenue	0	.50	1.20	1.30
Outstanding Debt to General Revenue (accumulated debt plus current borrowing or minus repayment)	7.53	7.03	5.83	4.53

*Approximations, not normally computed by ETA/DOL, estimated by the author.

**The distribution of FUTA Revenue is changed by P.L. 97-248 increasing the permanent tax for extended benefits until an indebtedness in EUCA is repaid.

Source: UI Outlook, Department of Actuarial Services, ETA/DOL (2/82).

the federal general funds will begin again, and continue through the end of this decade, retiring the 1974-75 and subsequent EUCA debts.

It is important to point out that EUCA indebtedness is a function of borrowing for both the FSB and EB programs. The additional 0.2 percent surtax was enacted specifically to repay the debts ($8.7 total) from the 1974-75 recession. However, the majority of surtax revenues have not been used to make repayments because most of the resources have been needed to pay the annual costs of the federal share of the EB program. Congress recognized the permanent provisions for extended benefit financing were insufficient to meet the costs of this program, particularly during periods of higher unemployment. In 1981, the Administration and Congress agreed to reduce the availability of extended benefits by imposing restrictive eligibility requirements on this program. These restrictions are taking effect during a period when national unemployment is the highest it has been since the Great Depression. In spite of eligibility restrictions, tax increases in 1983 and 1985 were also determined by Congress to be necessary to properly finance EUCA in 1983 and beyond.

The purpose of extending unemployment compensation benefits, whether for an additional 13 or even 26 weeks, has been to continue providing an economic cushion to those communities experiencing high unemployment and to infuse funds into a depressed economy. These extensions assist individuals, help to maintain a stable work force, and stimulate the economy by supplying dollars to the unemployed to spend on basic needs. These programs extending benefits have always utilized some form of trigger mechanisms which makes the benefits available only when unemployment reaches the specified trigger levels. In the past, for example, when the national insured unemployment rate reached 4.5 percent,[7] extended benefits became payable in all states. The national trigger for extended benefits was eliminated by the Omnibus Reconciliation Bill of 1981 (P.L. 97-35), although there is some discussion of reimplementing a national trigger for this program because of the current high unemployment rates. Extended benefits will be payable, after September 25, 1982, when a state's insured unemployment rate reaches 5.0 percent.[8]

In terms of insurance principles, the Extended Unemployment Compensation Account pools resources at the national level to address long-term and excessive unemployment. By implication, this unemployment is no longer the responsibility of only the employers in a particular state, but becomes a risk shared with all employers in the nation. That is, the state's employers pay 50 percent and the national pool pays 50 percent of the benefit costs.

The Employment Security Administration Account (ESAA) - The Administrative Account

Each account described in the previous sections is dedicated solely to financing the costs of benefits. The Employment Security Administration

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[7] EB triggered on at 4.5 percent, then FSB offered 13 weeks additional benefits when the national rate reached 5.0 percent. FSB II offered a second addition of 13 weeks when national unemployment reached 6.0 percent.

[8] Actually, under the new law the state rate must both reach 5.0 percent and exceed 120% of the average insured unemployment rate in the same 13 week period during the previous two years. States may optionally trigger at a 6.0 percent insured unemployment rate without meeting the moving average requirements.

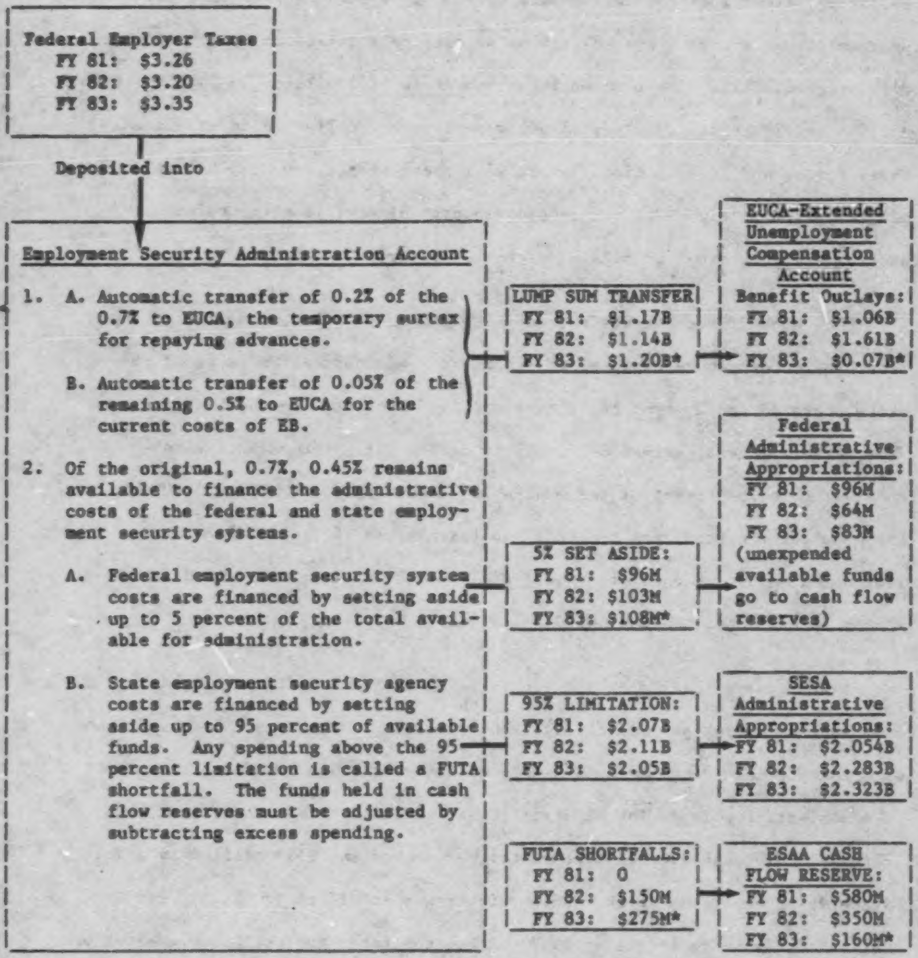
Account, as its name implies, is primarily devoted to providing funds for the administration of the employment security system. Chart II reveals the relationships between ESAA and the several other accounts in the Unemployment Trust Fund, the transfers and outlays made from the ESAA fund, and adjustments to ESAA's cash flow reserves.

The Employment Security Administration account is like a holding account for all employer federal taxes. Therefore, all FUTA taxes are deposited directly into ESAA. The annual revenue deposited into this account is subject to several statutory transfers and earmarks. First, the portion of FUTA earmarked for the current costs of the EB program (0.05 percent) and the 0.2 percent FUTA surtax (to repay general revenue advances made to EUCA) are automatically transferred, in a lump sum, to the EUCA account. This lump sum is equivalent then to .25 percent of the original 0.7 percent employer FUTA tax. The lump sum in 1983 will be equivalent to 0.32 of the 0.8 percent FUTA tax rate taking effect in January 1983. In fiscal year 1982, the lump sum transfer will equal $1.14 billion. In 1983, this amount will increase due to changes in P.L. 92-248, and should equal approximately $1.34 billion, rather than the $1.20 billion projected in the President's budget.

Until 1983, of the 0.7 percent tax collected, 0.45 percent remains for federal and state administrative costs. In 1983, 0.48 percent of the 0.8 percent tax will be available for administration. The law requires that five percent of these monies be set-aside (earmarked) for the costs of federal administration of the UI, ES, certain veterans employment programs and the programs authorized by federal unemployment compensation laws. These programs

Chart II

Employment Security Administration Account



Federal Employer Taxes
FY 81: $3.26
FY 82: $3.20
FY 83: $3.35

Deposited into

Employment Security Administration Account

1. A. Automatic transfer of 0.2% of the 0.7% to EUCA, the temporary surtax for repaying advances.

   B. Automatic transfer of 0.05% of the remaining 0.5% to EUCA for the current costs of EB.

2. Of the original, 0.7%, 0.45% remains available to finance the administrative costs of the federal and state employment security systems.

   A. Federal employment security system costs are financed by setting aside up to 5 percent of the total available for administration.

   B. State employment security agency costs are financed by setting aside up to 95 percent of available funds. Any spending above the 95 percent limitation is called a FUTA shortfall. The funds held in cash flow reserves must be adjusted by subtracting excess spending.

LUMP SUM TRANSFER
FY 81: $1.17B
FY 82: $1.14B
FY 83: $1.20B*

EUCA-Extended Unemployment Compensation Account
Benefit Outlays:
FY 81: $1.06B
FY 82: $1.61B
FY 83: $0.07B*

5% SET ASIDE:
FY 81: $96M
FY 82: $103M
FY 83: $108M*

Federal Administrative Appropriations:
FY 81: $96M
FY 82: $64M
FY 83: $83M
(unexpended available funds go to cash flow reserves)

95% LIMITATION:
FY 81: $2.07B
FY 82: $2.11B
FY 83: $2.05B

SESA Administrative Appropriations:
FY 81: $2.054B
FY 82: $2.283B
FY 83: $2.323B

FUTA SHORTFALLS:
FY 81: 0
FY 82: $150M
FY 83: $275M*

ESAA CASH FLOW RESERVE:
FY 81: $580M
FY 82: $350M
FY 83: $160M*

*These estimates will change as the provisions of P.L. 97-248 are implemented beginning in January 1983. Estimates of these changes are not yet available.

Source of fiscal estimates: UI Outlook, Department of Actuarial Services, ETA/DOL, February, 1982.

provide unemployment coverage for ex-military personnel and former federal employees, as well as for individuals covered by special worker protection programs, such as the Trade Adjustment Assistance and Redwood Employee Protection programs. The five percent funds amount to $103 million in 1982 and $108 million and in 1983. The federal government is not obligated to expend all these funds, and in both fiscal years will spend lesser amounts, $64 and $83 million respectively. The unexpended amounts in the five percent federal set-aside are retained in ESAA as cash flow reserves.

Once each of these transfers and set-asides has been accomplished, the remaining funds may be utilized to finance the administrative costs of the state operated, employment security agencies. The statutes which define the five percent federal set-aside similarly define that state agencies may receive up to 95 percent of the available resources from the annual FUTA income after the transfers to EUCA. In fiscal year 1982, the 95 percent limitation amount is equal to $1.957 billion and in fiscal year 1983 the amount is estimated to equal $2.048 billion.

There is a special provision in title IX of the Social Security Act which only applies during periods of high and increasing unemployment levels. Since high unemployment rates mean that more individuals claim benefits, the amount of administrative funds for UI staff to serve claimants is automatically increased. Through another type of trigger mechanism, $150 million is added to the 95 percent limitation. This trigger was in effect in fiscal year 1981 and is again in effect in 1982. Thus, the total appropriation available for administration in 1982 will be increased from $1.957 billion, by $150 million, to $2.107 billion. The Department of Labor is not obligated to expend all the funds provided under the $150 million trigger if state agency UI workloads do not justify allocation of the funds. Unexpended funds remain in ESAA as cashflow reserves.

Generally, the administrative funding for the state employment security agencies has been held under the statutory 95 percent limitation. In recent years, however, sequential recessions have caused budgets to exceed this limitation a number of times. In 1977, state funding exceeded the statutory limitation, and this is projected to occur again in 1982 and 1983. In 1978 through 1981, the state employment security agency budgets nearly equaled the 95 percent limitation.

Presidential Budgeting and the ESAA

The Administration has attempted to hold the total state employment security agency budget to the statutory limits just described. Therefore, in 1982, their entire administrative budget for state agencies would have been $2.107 billion or less and similiarly, in 1983, the budget would have been $2.048 billion or less. However, to have actually held the state agencies to these budget levels would have brought about massive reductions in the programs, including the nearly total elimination of the Employment Service (ES) function.

The 1982 Presidential budget requests included two waves of cuts for the employment security budget. Congress agreed to the first cuts, and the state agencies reduced their programs by nearly 25 percent ($198.3 million) prior to the beginning of fiscal year 1982. Then, the President requested an additional 12 percent cut ($263.5 million) which was agreed to by the Congress in the third continuing resolution adopted in December 1981. The Administration decided to achieve the majority of the reduction by requiring that the Employment Services absorb 80 percent of the second cut, a $204.5 million reduction. It was estimated that as many as 1,000 local offices might have been closed had this budget reduction remained in place. Table IV highlights the projected impacts of the December reductions in comparison to the first budget cuts and the prior year budget levels.

The December and January unemployment rates reached post-war highs, resulting in Congress's decision to restore the second cut. The Administration supported the restoration. Congress enacted an urgent supplemental appropriation which allowed most state agencies to continue operating some level of public labor exchange along with their unemployment insurance programs. The 1982 budget now exceeds the 95 percent limitation by $150 million. Furthermore, the Administration has also requested a total state agency budget $275 million above the 95 limitation for 1983, which will allow the continuation of the Employment Service, though at reduced levels, throughout the nation.

Table IV shows the base Employment Service staff year levels for each state in 1981 and 1982. In addition, the total and insured unemployment rates are presented for each state. The total unemployment rate estimates the percentage of all adults in the state who are unemployed and actively seeking work. The insured unemployment rate is the percentage of workers covered by

Table IV
Comparison of Employment Service Staffing Levels in 1981 and 1982

	FY 1981	FY 1982 President's March (10/1/81 - 12/31/82) Budget	FY 1982 Third Continuing (1/1/82 - 9/30/82)[1] Resolution Budget
Total Staff	31,500[2]	24,814	17,552
(Dollars)	($831.4M)	($729.0M)	($524.5M)
Costs (in staff years) of Retroactive Application of the 12 Percent Cut[3]			2,984
Costs (in staff years) of Closing Local Offices and Staff Separations			1,606
Revised Total Staff	31,500	24,814	12,962
Dedicated Staff (not available to assist in basic ES operations)			
- Disabled Veterans Outreach Program[4]	1,500	2,016	2,016
- Local Veterans Employer Representatives[4]	1,500	1,500	1,500
- AS&T (support and overhead staff)	2,400	1,985	1,404
- Labor Market Information	959	767	500
- Special Projects	2,002	547	345
(Subtotal)	(8,361)	(6,815)	(5,765)
Remaining Staff Available to Conduct the Basic Missions of the Job Service	23,139	17,999	7,197

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[1] The third continuing resolution originally extended spending authority through March 31, 1982. The continuing resolution has subsequently been extended through September 30, 1982, the close of fiscal year 1982.

[2] DVOP staff years (1,500) were funded from general revenue in 1981, but are added here for comparability, since DVOP is now absorbed out of the ES budget.

[3] The second cuts were applied retroactively and would have been implementable in February, requiring greater reductions in staff to make up for "overspending" earlier in the year.

[4] Staff levels for veterans programs are determined by statutory formula.

Source: ICESA, Inc.

Table V
Employment Service Base Staff, the Insured and Total Unemployment Rates in 1981 and 1982

	FY 1981 Base ES Staffyears	FY 1982 Base ES Staffyears	1981 Insured Unemployment Rate (IUR)	1982 IUR as of 7/10/82	1981 Total Unemployment Rate (TUR)	1982 April TUR
Region I						
Connecticut	342.1	294.7	2.59%	3.25%	6.2	6.9
Maine	128.2	110.9	4.21	4.31	7.3	9.3
Massachusetts	614.7	527.8	3.36	3.55	6.4	8.0
New Hampshire	87.4	74.6	2.11	2.75	5.0	8.4
Rhode Island	125.7	109.7	4.98	5.74	7.5	9.9
Vermont	64.7	56.5	3.83	5.10	5.8	9.0
Region II						
New Jersey	640.4	568.4	4.28	4.50	7.3	8.9
New York	2,184.6	1,985.2	3.35	3.60	7.6	7.8
Puerto Rico	302.1	262.3	7.67	8.54	NA	NA
Virgin Islands	50.2	42.2	3.59	4.64	NA	NA
Region III						
Delaware	57.4	50.6	3.32	2.93	8.0	7.6
District of Columbia	172.8	153.4	3.11	3.55	9.0	10.6
Maryland	312.9	273.8	3.14	3.96	7.3	8.7
Pennsylvania	1,207.4	1,033.5	4.48	6.21	8.4	10.3
Virginia	420.0	368.3	1.90	2.21	6.1	7.2
West Virginia	206.6	176.2	5.92	6.26	10.7	11.2
Region IV						
Alabama	416.9	357.7	4.04	4.89	10.7	13.1
Florida	808.3	707.2	1.70	2.37	6.8	7.9
Georgia	503.9	433.3	2.49	3.19	6.4	7.2
Kentucky	354.2	301.3	4.56	5.42	8.4	10.3
Mississippi	407.7	345.1	3.91	5.41	8.4	9.6
North Carolina	606.0	530.4	2.97	4.35	6.4	8.2
South Carolina	356.9	307.9	3.72	5.32	8.4	10.5
Tennessee	457.2	394.0	3.84	4.96	9.1	10.7

Table V (cont.)
Employment Service Base Staff, the Insured and Total Unemployment Rates in 1981 and 1982

	FY 1981 Base ES Staffyears	FY 1982 Base ES Staffyears	1981 Insured Unemployment Rate (IUR)	1982 IUR as of 7/10/82	1981 Total Unemployment Rate (TUR)	1982 April TUR
Region V						
Ilinois	994.8	857.7	4.55	5.00	8.5	10.1
Indiana	576.6	493.2	3.21	4.29	10.1	12.3
Michigan	782.1	671.3	6.02	6.65	12.3	15.3
Minnesota	470.9	406.2	2.86	3.76	5.5	7.0
Ohio	825.2	704.4	4.17	5.45	9.6	12.0
Wisconsin	439.4	375.2	4.75	5.59	7.8	10.2
Region VI						
Arkansas	382.1	327.0	4.38	5.03	9.1	9.6
Louisiana	390.2	335.2	2.64	4.19	8.4	10.2
New Mexico	198.3	173.9	2.73	3.81	7.3	7.8
Oklahoma	491.6	418.7	1.36	2.49	3.6	5.0
Texas	1,647.6	1,423.7	1.13	1.71	5.3	5.9
Region VII						
Iowa	448.4	380.6	2.89	4.19	6.9	8.6
Kansas	276.8	239.5	2.34	3.93	4.2	5.4
Missouri	599.0	513.8	3.82	3.82	7.7	8.5
Nebraska	213.0	182.0	1.96	2.60	4.1	5.2
Region VIII						
Colorado	312.6	272.7	2.05	2.83	5.5	6.7
Montana	181.5	154.8	4.06	5.03	6.8	9.2
North Dakota	139.4	122.1	2.96	2.93	5.2	5.0
South Dakota	158.5	135.4	1.97	2.10	5.1	5.1
Utah	259.5	221.5	3.14	4.41	6.7	7.6
Wyoming	107.3	93.3	1.71	3.35	4.0	5.1

Table V (cont.)

Employment Service Base Staff, the Insured and Total Unemployment Rates in 1981 and 1982

	FY 1981 Base ES Staffyears	FY 1982 Base ES Staffyears	1981 Insured Unemployment Rate (IUR)	1982 IUR as of 7/10/82	1981 Total Unemployment Rate (TUR)	1982 April TUR
Region IX						
Arizona	343.9	305.8	2.40	4.00	6.2	8.3
California	2,350.8	2,069.6	3.79	4.90	7.4	9.4
Hawaii	107.6	91.6	3.01	3.31	5.3	6.0
Nevada	136.6	117.7	3.28	4.26	7.1	8.6
Region X						
Alaska	140.4	119.7	6.84	6.66	9.4	10.7
Idaho	167.9	148.1	5.05	6.65	7.5	10.5
Oregon	362.2	320.8	5.81	6.85	9.8	11.8
Washington	506.8	451.0	4.96	6.31	9.5	12.5
TOTAL	24,850.2	21,515.0	3.50%	NA		

Source: Office of Finance and Information Systems and Division of Actuarial Services, ETA/DOL unemployment insurance laws who are actively filing for UI benefits. While unemployment rates remain very high and have continued increasing, the Administration is requesting an additional 3,000 ES staffyears be cut from the Employment Service in 1983. This will require additional reductions in the staff years in each state dedicated to assisting the unemployed find new jobs.

Summary of the Accounting Functions in the ESAA Account

Table VI highlights the ESAA accounting functions which are required to make all the transfers and identify the set-asides. As Table VI reveals, the budgets for both 1982 and 1983 do, in fact, exceed the amounts statutorily allowed for employment security financing. The amount of funds spent above the allowable limits are commonly referred to as the "FUTA shortfall," a somewhat misleading term which does not necessarily imply a deficit in FUTA revenues. Rather, a FUTA shortfall in a fiscal year simply means that the 95 percent state set-aside of funds was not sufficient to finance the costs of administration for that year. If more FUTA than is available is being spent for administration, the obvious question is where does the money come from? FUTA shortfalls are absorbed out of the cash flow reserves which are retained in the ESAA fund.

The cash flow reserves held in FUTA, which may be as high as 40 percent of the prior year's appropriation, are used to cover the costs of FUTA shortfalls when they occur. However, the cash reserves have a more important purpose. The majority of FUTA revenues are payable during the second calendar quarter of the year. This is because FUTA is collected on a calendar year

Table VI
FUTA Transactions and the Employment Security Administration Account - FY 1982-83

Transaction	Available	Outlays	Explanation or Comments
	— FY 1982 —		
FUTA Revenue (annual income)	$3.200 b		This amount varies with the total unemployment rate (TUR); if the rate is higher, FUTA will be lower. TUR = 8.9%
Transfers to EUCA (Extended Unemployment Compensation Account)	3.200 b - 1.140 b 2.060 b	$1.140 b	Pays the current costs of the extended benefits program and repays general revenue debt from the 1974-75 recession.
Federal Administration (5% funds)	2.060 b - 0.103 b 1.957 b	0.064 b	Up to 5% is available for federal administration costs. Plans are to use $64 m, with the remainder left in ESAA reserves.
Adjust SESA Availability (95% funds)	1.957 b + 0.150 b 2.107 b		When the TUR increases by 15% in a quarter over the TUR in the same quarter in the prior year, $150 m is added for increased workload.
Funds Authorized for SESA Administration	2.107 b - 2.267 b - 0.150 b	2.283 b	Congress has authorized outlays to SESA of $2.283 b. Budget authority is $26 m lower, reflecting an adjustment between FY 81 and 82.
FUTA Shortfall	- 0.150		The FUTA shortfall is the amount by which budget authority for SESA administrative costs exceeds the 95% limitation.
Adjust Cash Flow Reserves ESAA Balance	0.580 b - 0.150 b 0.350 b		Cash flow is the balance in ESAA which is carried in from the prior year. A FUTA shortfall is subtracted from cash flow reserve.
FUTA Revenue	$3.356 b		The TUR of 8.1% may be too low. If the TUR is higher, FUTA will be lower.

Source: UIS Outlook, (ETA/DOL), February 1982.

Table VI
(Continued)

FUTA Transactions and the Employment Security Administration Account - FY 1982-83

Transaction	Available	Outlays	Explanation or Comments
	-- FY 1983 --		
Transfers to EUCA	3.356 b - 1.200 b 2.156 b	$1.200 b	EUCA failed to meet its obligations for EB in FY 82 and may fall short in FY 83. General revenue will be repaid $500 m.
Federal Administration (5% funds)	2.156 b - 0.108 b 2.048 b	0.083 b	Of the amount available, $83 m will be spent. The remaining funds stay in ESAA reserves. $2.048 is available to fund SESAs.
Funds Budgeted for SESA Administration	2.048 b - 2.323 b -0.275 b	2.323 b	As in FY 82, the funds budgeted exceed the amounts available under the 95% limitation.
FUTA Shortfall	/- 0.275 /		The shortfall is deducted from cash flow reserves carried in from FY 82.
Adjust Cash Flow Reserves	0.375 b - 0.275 b 0.100 b		Cash flow from FY 82 was increased by $25 m, which was not spent for federal administration.
Interest ESAA Balance	0.100 b + 0.060 b 0.160 b		Interest income to FUTA will increase the amounts available in cash flow reserves by $60 m. This is carried into FY 84.

Note: These estimates do not reflect the modifications to FUTA enacted in P.L. 97-248. These changes will increase FUTA revenue, increase the transfers to EUCA and increase slightly the funds available in ESAA. Formal estimates of these increases are not yet available.

Source: UIS Outlook, (ETA/DOL), February 1982.

basis. Approximately 40 percent of annual FUTA income is received in April and May, with an additional 25 percent collected after the second calendar quarter. Outlays from ESAA, however, occur regularly during the year, meaning that the account will have almost no funds in it during the first calendar quarter of the following year. Cash flow reserves are held in ESAA to ensure that all its obligations can be met during any quarter of the year. The general rule of thumb regarding cash flow reserves is that a minimum of $350 to $400 million is desirable.

In reviewing Table VI, it is clear that the FUTA shortfalls for 1982 and 1983 have a very significant impact on the cash flow reserves and therefore on the solvency of the ESAA fund. The erosion of cash flow reserves during recent years will result in seriously depleted reserves at the end of fiscal year 1983. Should the administrative budgets for the state agencies be set by Congress at a higher level than the President's budget request, or should unemployment rates remain high (reducing the amount of FUTA revenue coming into ESAA), it is safe to assume ESAA will require a general revenue loan during 1983 or 1984.

The major insurance principles inherent in the ESAA account involve the mechanism by which the costs of delivering insurance benefits are spread among the employers. In order to meet the requirements of the system, the administrative funds are pooled at the federal level, with employers contributing an equal share toward administrative costs. The resources are divided by the federal partner among the states in accordance with the insurance workload and need for other services the system provides. The system's operating costs are subject to many factors. The major cost variable is the amount of unemployment a particular state experiences. Operating resources must be moved from one state to another as state-specific unemployment rates increase or decrease. The other costs of the system, including employment services and labor market information, are more stable than the costs associated with the UI program.

A question of importance in reviewing the ESAA account is the fact that currently only private (for profit) sector employers pay for the cost of operating the system. In fact, public sector and private non-profit employers (approximately 18% of all employers), whose employees and former employees benefit from the system's insurance and services, do not contribute to FUTA. Thus, they do not contribute to the cost of operating the system. Additionally, the job seekers and workers the system serves do not contribute to the cost of operating the system. As the adequacy of administrative funding is examined, a full review of the responsibility to contribute to the cost of operating the system is in order.

Summary of the Status of the Unemployment Trust Fund

Table VII summarizes the status of the several funds housed in the Unemployment Trust Fund. It is clear that each fund is, or nearly is, bankrupt. The overall indebtedness to general revenue as a result of borrowing by these accounts will be $16.91 billion in 1982, $20.91 billion in 1983, and under current assumptions is expected to peak in 1984 at $21.71 billion. The projected repayment of this indebtedness will require years, going well into the next decade in some cases. Furthermore, should the economy continue to

Table VII

Summary Unemployment Trust Fund Accounts
(in billions of dollars)

	FY 1982	FY 1983	FY 1984	FY 1985
State Benefit Trust Funds				
Collections (Income)	$12.54B	$14.25B	$16.20B	$17.24B
Total Outlays (Benefits)	21.07	19.92	17.75	16.10
New Loans	3.80	5.13	3.32	2.00
Outstanding Loans	9.49	13.98	16.13	15.99
FUA				
Income	.49	.64	1.18	2.14
Outlays	3.80	5.13	3.32	2.00
New General Revenue Advances	3.30	4.50	2.00	0
Outstanding General Revenue Debts	9.38	13.88	15.88	15.78
EUCA				
Income	1.14	1.20	1.26	1.32
Outlays	1.61	.67	.14	.06
New General Revenue Advances	.50	0	0	0
Outstanding General Revenue Debts	7.53	7.03	5.83	4.53
ESAA				
Total FUTA Income	3.20	3.35	3.52	3.70
Available ESAA After Transfers	2.06	2.16	2.26	2.38
95% Limit (to SESAs)	2.11*	2.05	2.15	2.26
Shortfall	(-.15)	(-.275)	(+.17)	(+.34)
Cash Flow Reserves	.35	.16	.23	.57
Grand Total General Revenue				
New Advances (all accounts)	3.80	4.50	2.00	0
Outstanding Debts (all accounts)	16.91	20.91	21.71	20.31

*$150M was added to the 95 percent limitation due to high unemployment rates.

Source: UI Outlook, Department of Actuarial Services, ETA/DOL, February, 1982.

decline, or experience another set of recessionary pulses during the outyears, the accounts will require additional general revenue supplementation, and will remain insolvent for longer periods than currently projected. Additionally, there can be no growth in staffing for the unemployment insurance system or the Employment Service programs. If current policy trends continue, the slow but sustained erosion of the Employment Service seems to be a highly probable event.

An additional consequence of the current insolvency in the state benefit trust funds, in particular, is the fact that in 1982 employers in 11 states will have begun to pay higher FUTA taxes, in order to repay their state's borrowing. The projections for the next years reveal continuous increases in employer FUTA taxes and are displayed on Table VIII. In addition, employers will also be responsible, in most cases, for paying the interest due on state loans, through increased state tax contributions. The interest payment projections are also described on Table VIII.

In analyzing the overall insolvency of the state and federal trust funds, there are many contributing factors and causes. For example, the high rates of inflation in recent years have increased the costs of doing business in the employment security system. Inflation has also caused the employee wages to increase. In spite of the rapidly increasing average wage levels, the FUTA wage base was not increased from the $6,000 level which was set in 1978,

Table VIII

Summary of Employer Tax Increases (in millions of dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
Offset Credit Reduction[1] (Increased Federal Unemployment Taxes)	$484	$634	$1,031	$1,576	$2,103	$2,314
Interest (state employer surtax)	0	$625	$1,056	$1,269	$1,239	$1,067

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[1] Projected on basis of 19 borrowing states including:

- Alabama
- Arkansas
- Connecticut
- Delaware
- District of Columbia
- Illinois
- Iowa
- Kentucky
- Maine
- Michigan
- Minnesota
- Missouri
- New Jersey
- Ohio
- Pennsylvania
- Puerto Rico
- Rhode Island
- South Carolina
- Vermont
- Virgin Islands
- Washington
- West Virginia
- Wisconsin

Source: UI Outlook, Department of Actuarial Services, ETA/DOL.

until August, 1982 when Congress passed P.L. 97-248.[9] Table IX reveals the growth in average wages in covered employment, shows the percentage of these wages covered by the $6,000 and $7,000 wage bases, and estimates the required wage base level at higher percentages.

A long-term position of the state employment security administrators argues that the FUTA and state wage bases should be set at a rate equivalent to two-thirds of the average wages in covered employment. Only ten states have wage bases which automatically increase with increases in the state's average wages. A total of 19 states have wage bases which are above the federally required $6,000 level. Table IX reveals that raising the federal wage base to 65 percent, as recommended by the National Commission on Unemployment Compensation, will substantially increase the amount of wages which are taxed both nationally and in most states. Such an increase in the FUTA wage base would undoubtedly generate adequate revenues to meet the cost of benefits and administration.

The insolvency in the Unemployment Trust Fund accounts is largely caused by financing mechanisms which are not actuarily sound. The federal partner delayed efforts to raise adequate revenues for the federal share of extended benefits until the recently enacted tax legislation. Many states have not enacted taxing structures which provide them with adequate benefit trust fund

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[9] Since the fixed wage base was established in 1939 at $3,000, it has now been increased three times. In 1970, the wage base was raised to $4,200 (effective 1/1/72) in P.L. 91-373. In 1976, P.L. 95-566 included an increase in the wage base to $6,000 (effective 1/1/78). P.L. 97-248, just enacted, will increase the wage base to $7,000 on January 1, 1983.

Table IX

Average Wages in Covered Employment

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
Annual Average Wages[1/]	12,111	13,151	14,371	15,684	16,896	17,870	18,835	20,172
Percent Covered by $6,000	49.5%	45.6%	41.8%	38.3%	35.5%	33.6%	31.9%	29.7%
Percent Covered by $7,000	-	-	-	-	-	39.1%	37.2%	34.7%
Wage Base Required for:[2/]								
50%	6,000	6,500	7,100	7,800	8,400	8,900	9,400	10,000
60%	7,200	7,800	8,600	9,400	10,100	10,700	11,300	12,100
65%	7,800	8,500	9,300	10,100	10,900	11,600	12,200	13,100
66-2/3%	8,000	8,700	9,500	10,400	11,200	11,900	12,500	13,400

[1/] Annual average wage paid by taxable employers in the nation.

[2/] Rounded to the next lowest hundred.

Source: Data and computations provided by Division of Actuarial Services, ETA/DOL, at the request of the author.

reserves, have failed to finance the costs of benefit increases, or have been unwilling to reduce benefit availability.

Some of the policy directions available for developing solutions to the financial crisis in the employment security system include:

- further restrictions in the entitlement to UI regular or extended benefits through modifications to qualifying requirements or by expanding disqualifying circumstances, which can limit the number of individuals who will be eligible to receive benefits,

- federal administrative funding can be curtailed further, resulting in reductions in both the staff available to serve clients of the employment security system, as well as the number of local offices throughout the nation,

- the amount of federal general revenue infused into the system can be increased, either in the form of loans or as direct supplementation of FUTA-financed activities, and

- financing reforms for both benefit and administrative funding can be instituted, ensuring adequate revenues to meet the costs of the system, balancing tax rates and benefit eligibility requirements, and improving benefit trust fund management.

These are a few of the potential solutions to the fiscal problems which have developed in the employment security system. Each of these directions has implications which should be fully developed and debated.

It is alarming to learn of the extent and depth of the financial crisis in the Unemployment Trust Fund accounts. This crisis has been evolving over many years but has been exacerbated by the 1982 recession. The employment security system is not paying for itself during a time when its services and benefits are most needed to stabilize the economy and to assist the return of unemployed individuals to productive work. Similarly, the employment security system suffered a financial crisis during the 1974-75 recession, suggesting improvements will be needed to avoid recessionary insolvency. It is only too clear that finding rational and reasonable solutions to the funding problems in the employment security system will require diligent and creative efforts.

SECTION II

OPERATING THE EMPLOYMENT SECURITY SYSTEM

This section examines some of the administrative arrangements affecting the daily operation of the employment security system. Many of the costs of administering the system evolved out of these administrative arrangements. The Secretary of Labor has had almost total discretion to develop administrative controls which the states must accept. Few of the myriad of financial and operational controls imposed on the employment security system are based in law or regulation.

The Federal Costs

There are both federal and state administrative costs in operating the employment security system. The federal costs are funded partially by FUTA funds (i.e., from the five percent set-aside in title IX) and primarily by federal general revenue appropriations. FUTA funds for federal administration are used to provide for some oversight of the federal-state partnership, and to finance some costs associated with operating the federal unemployment programs. Federal general revenues, appropriated for salaries and expenses, provide additional staff to conduct federal administrative responsibilities in the employment security system.

There have often been debates about the set-aside from FUTA for federal administrative costs and oversight of the system. If federal management of the system were limited to the amount which could be financed by the five percent set-aside, it would be extremely limited in its scope. Because federal management is also funded by federal general revenues, federal management of the state agencies has expanded as larger numbers of federal staff have been assigned to employment security issues.

The Wagner-Peyser Act of 1933 and the Social Security Act, authorizing the employment security system, provide broad latitude to the Secretary of Labor in overseeing the system. Title III of the Social Security Act directs the Secretary to secure such sums as are necessary from the Congress for the "proper and efficient" administration of the employment security system. This phase has resulted in the development of an extremely complex set of budget justification mechanisms, allocation devices, planning requirements and fiscal controls. The Federal management control systems placed on state agencies are a method which has been used by the Secretary to bring uniformity to the programs in the fifty-three states and jurisdictions.

Some of these systems have become the anathema of the state agencies who must operate the basic programs in the field. For example, thousands of pages of documents are submitted each year to the federal partner to explain annual funding requirements. The justifications provided by the states for their costs, however, are generally and regularly ignored by an entirely separate exercise at the federal level, which divides the available resources, provided by Congress, amongst the state agencies. The state agencies receive their allocations and then are required to rework the earlier documents to establish what they will accomplish with the funds they have ultimately been allotted.

The Budget Justification and Allocation Systems

Almost every function administered by the employment security system has some kind of mathematical model which is used to predict the administrative funding required to accomplish the function, or to allocate the resources for the function. While the desire is to achieve an objective method of justifying resources or of dividing available resources among the states, the mathematical models often ignore the operational realities of providing unemployment insurance benefits or of assisting job seekers to find employment. Additionally, most of these mathematical systems have been developed independently of each other. There have been unanticipated effects on the other systems. One mathematical system may undermine another and cause serious inefficiencies in the operation of the programs in the field, as explained in the paragraphs which follow.

The federal partner has established three major allocation methodologies which distribute the three largest components of the costs associated with state administration. First, there is the Unemployment Insurance Cost Model System which acts to both justify budget requirements for the administration of the unemployment insurance system and to allocate the resources authorized for the program each year. The second major allocation mechanism is the Administrative, Staff, and Technical - Nonpersonal Services (AS&T/NPS) model, a complex mathematical system for justifying and allocating overhead and support funds. The last, though not currently utilized, is the Resource Allocation Formula which distributed Employment Service resources.

An example of unexpected interaction between two of these allocation devices which creates operational difficulties can be found by examining the UI Cost Model and the AS&T/NPS model. The UI Cost Model allocates resources to the states, specifying the numbers of staff the state will have to take claims, to process appeals, to audit employer tax records, and the variety of other activities which make up an UI operation. The AS&T/NPS model allocates overhead resources which will be used by the state to pay for their buildings, supplies, utilities costs, training of their staff, data processing and all other overhead items necessary to operate the programs administered by the system. The AS&T/NPS model makes use of the number of positions in the agency, for UI and ES, and generates an amount of funds for each position the agency receives.

A serious problem arises because of the interaction of these two models when a state agency decides to implement a cost saving program by automating a major UI function. Automation of many UI functions has been shown to be very cost-effective, reducing the number of staff required to process the work and often resulting in quality improvements. Automation also means that fewer staff are required for the UI function. The UI Cost Model will be adjusted and will allocate fewer staff to the state after the automation is implemented. Subsequently, the AS&T/NPS model will allocate fewer overhead resources (based on reduced staff positions), even though the automation of the UI function will result in higher overhead costs. The state agency which automates a UI function will properly lose the staff positions no longer needed for the UI function, but will be penalized because it will also lose all the overhead dollars which supported those positions, even though some of those dollars are needed to operate the automated UI function.

Several papers describing the interaction of the UI Cost Model and the AS&T/NPS model have shown clearly that a state agency will experience a net loss of resources by instituting an improvement which reduces staffing. The loss is often so great that the agency cannot afford to implement the improvement. While the purpose of both models is to allocate only those resources needed to accomplish the work of the state agencies, an unfortunate result has been to halt, in many cases, state agency programs which would reduce staffing levels through automation or other more efficient operational improvements.

Another example of a negative effect of an allocation mechanism is revealed by reviewing the former effects of the Resource Allocation Formula (RAF) on the Employment Service program. This model made use of a large number of performance factors which measured the placement of clients into jobs. The RAF rewarded states which placed the most clients, by providing additional [illegible] to those states. Since there was a fixed pool of positions [illegible] states during the years the RAF operated (30,000 staff years [illegible] me states received more resources, that meant other states lost [illegible] high performers were rewarded by receiving more staff and [illegible] perform better, or as well, the next year. The poor performers lost staff, making performance improvements difficult to achieve.

Tables X and XI, which follow, show the impact of the RAF on national Employment Service grants and position levels, and display state ES performance data for 1977 through 1979.

Table X
Net RAF Impact on the Employment Service Budget

	1977	1978	1979
Total ES Staff Years	30,000	30,000	30,000
Total Base ES Staffyears Allocated by the RAF	21,256.5	24,072.7	24,077.1
- Percent of 30,000 Allocated by the RaAF	70.8%	80.2%	80.5%
Total Positions Reallocated on the Basis of Performance and Other Factors	530.1	845.7	348.6
- Percent of Total Base ES Staff Reallocated	2.5%	3.5%	1.45%
Largest Loss in Staffyears	-42.2	-100.7	-39.5
Largest Gain in Staffyears	+40.1	+81.6	+21.3

Source: Description and Critique of Unemployment Insurance Service and Job Service Grants-to-States Funding, ICESA and Macro Systems, September, 1979.

Table XI
Employment Service Performance: 1977-1979

Region/State	ES Staff to CLF Ratio[1]		Individuals Placed[3] Per Staff Year Worked		Percent of National[4] Average Individuals Placed Per Staffyear Worked	
	1977	1978-79[2]	1976-77	1978-79	1976-77	1978-79
Nation	3.01	2.88	161.7	214.4	100.0	100.0
Region I						
Connecticut	2.83	2.30	111.3	169.2	68.8	79.2
Maine	3.87	2.65	171.3	219.9	105.9	102.9
Massachusetts	2.64	2.11	167.0	195.9	103.3	91.6
New Hampshire	3.14	2.14	194.9	195.8	120.6	91.6
Rhode Island	3.44	2.85	153.7	199.4	95.1	93.3
Vermont	4.45	2.85	180.0	220.2	111.3	103.0
Region II						
New Jersey	2.58	1.85	119.6	182.4	74.0	85.3
New York	3.60	2.79	92.7	133.8	57.3	62.6
Puerto Rico	NA	3.17	266.3	287.6	164.7	134.5
Region III						
Delaware	2.42	1.98	171.9	126.9	106.3	59.4
District of Columbia	7.59	5.37	148.3	164.0	91.8	76.7
Maryland	1.40	1.38	159.6	184.2	98.7	86.2
Pennsylvania	3.03	2.35	136.7	199.0	84.5	93.1
Virginia	1.92	1.68	173.5	231.3	107.3	108.2
West Virginia	3.72	3.09	256.3	173.1	158.6	81.0
Region IV						
Alabama	3.11	2.71	243.1	246.3	150.4	115.2
Florida	2.28	2.03	184.8	259.9	114.3	121.5
Georgia	2.35	2.16	205.9	247.4	127.4	115.7

Table XI (cont.)
Employment Service Performance: 1977-1979

Region/State	ES Staff to CLF Ratio[1]		Individuals Placed[3] Per Staff Year Worked		Percent of National[4] Average Individuals Placed Per Staffyear Worked	
	1977	1978-79[2]	1976-77	1978-79	1976-77	1978-79
Region IV (cont.)						
North Carolina	2.49	2.21	163.8	233.7	101.3	109.3
South Carolina	2.99	2.48	189.5	287.5	117.2	134.4
Tennessee	2.85	2.35	178.7	222.3	110.5	104.0
Region V						
Ilinois	1.73	1.86	134.3	220.6	83.1	103.2
Indiana	2.63	2.35	140.8	247.6	87.1	115.8
Michigan	2.47	1.83	91.7	205.5	56.7	96.1
Minnesota	2.72	2.29	153.6	281.9	95.0	131.8
Ohio	2.02	1.63	90.0	212.1	55.7	99.2
Wisconsin	2.43	1.93	144.5	256.8	89.4	120.1
Region VI						
Arkansas	5.26	4.04	217.9	246.7	134.8	115.4
Louisiana	3.55	2.45	200.7	214.6	124.2	100.4
New Mexico	5.31	3.86	206.4	202.5	127.7	94.7
Oklahoma	4.23	3.84	177.4	220.8	109.7	103.3
Texas	3.66	2.81	162.6	202.3	100.6	94.6
Region VII						
Iowa	3.40	2.98	223.5	306.5	138.3	143.3
Kansas	3.18	2.24	160.6	259.1	99.3	121.2
Missouri	3.39	2.75	157.4	248.8	97.4	116.4
Nebraska	3.52	2.68	202.9	241.6	125.5	113.2
Region VIII						
Colorado	3.14	2.41	146.0	215.1	90.4	100.6
Montana	6.18	5.17	202.2	239.4	125.1	112.0

Table XI (cont.)
Employment Service Performance: 1977-1979

Region/State	ES Staff to CLF Ratio[1]		Individuals Placed[3] Per Staff Year Worked		Percent of National[4] Average Individuals Placed Per Staffyear Worked	
	1977	1978-79[2]	1976-77	1978-79	1976-77	1978-79
Region VIII (cont.)						
North Dakota	6.46	4.59	215.1	261.3	133.0	122.2
South Dakota	6.09	4.91	205.6	261.4	127.2	122.2
Utah	5.61	4.73	198.7	259.0	122.9	121.1
Wyoming	6.73	5.39	226.1	254.2	139.9	118.9
Region IX						
Arizona	4.24	3.27	194.6	266.4	120.4	124.6
California	2.85	2.32	164.6	172.4	101.8	80.7
Hawaii	3.00	2.62	219.3	236.3	135.6	110.5
Nevada	5.61	4.23	147.7	245.5	91.3	114.8
Region X						
Alaska	9.06	8.32	201.3	174.5	124.5	81.6
Idaho	5.39	4.07	199.0	260.1	123.1	121.6
Oregon	3.67	3.16	194.1	250.6	120.0	117.2
Washington	2.93	2.98	248.0	220.4	153.4	103.1

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[1] Ratio of ES staffyears to 10,000 persons in the civilian labor force (CLF).

[2] Ratio of ES staffyears to 10,000 CLF prior to an adjustment made in 1980 to correct for inequities and improve this ratio. Based on 1979 ES staffyears worked.

[3] A standard performance measurement used for annual comparison.

[4] The national average of individuals placed per staffyear worked is set equal to 100%. State performance is compared to this percentage. Figures less than 100% indicate lower than average performance. Conversely, figures above 100% indicate above average performance.

Several studies have shown that productivity in the Employment Service may be optimized when there are approximately four or five ES staff persons to serve every 10,000 members of the civilian labor force (CLF). This relationship between performance and the staff year to CLF ratio appears to be strongest in low density and rural states. In 1966, the national staffyears were set at 30,000 which provided approximately 4 staffyears per 10,000 members of the CLF nationally. Over the years since 1966 and until 1981, the same 30,000 staffyears remained available nationally while the civilian labor force increased over 43 percent. While the RAF was operating, it intended to reward high performing states by providing them additional staff to serve job applicants. However, as Table XII reveals, even those states which were consistently rewarded by the RAF experienced an erosion of the state ratio of ES staff to CLF.

A secondary difficulty associated with the RAF was its insensitivity to the unemployment level in each state (see Table XII). States experiencing high unemployment rates and depressed economic conditions were penalized when placement performance was low without regard to the lowered demand for job applicants in the state's economy. It is not surprising that states with higher performance measures generally had lower rates of unemployment than states with poor performance records. Furthermore, in cases where a state was short staffed in the UI program, it was often necessary to divert ES staff to assist with UI claims functions. Naturally, ES productivity would be lowered if ES staff were needed to process UI claims rather than utilizing them for the intended purpose.

Table XII
Performance Characteristics of Top Ten and Bottom Ten States: 1976-77 and 1978-79

1976 - 1977

Top Ten States	Productivity	ES Staff to CLF Ratio	1976 IUR	1976 TUR
Washington	366.4	2.93	7.0%	8.7%
Oklahoma	359.0	4.23	3.2%	5.6%
Arkansas	357.0	5.26	4.7%	7.1%
Wyoming	342.0	6.73	1.8%	4.1%
Mississippi	332.8	3.87	3.3%	6.6%
North Dakota	328.0	6.46	3.3%	3.6%
South Dakota	327.0	6.09	2.4%	3.4%
Montana	313.8	6.18	4.5%	6.1%
New Mexico	308.3	5.31	4.2%	9.1%
West Virginia	302.0	3.72	4.2%	7.5%

Bottom Ten States	Productivity	ES Staff to CLF Ratio	1976 IUR	1976 TUR
Maine	204.8	3.87	6.0%	8.9%
New York	201.1	3.60	5.6%	10.3%
Maryland	195.0	1.40	3.8%	6.8%
New Jersey	187.9	2.58	6.3%	10.4%
Wisconsin	181.8	2.43	3.9%	5.6%
Pennsylvania	173.8	3.03	6.0%	7.9%
Indiana	170.0	2.63	2.4%	6.1%
Ohio	166.9	2.02	3.0%	7.8%
Connecticut	139.3	2.83	5.7%	9.5%
Michigan	128.6	2.47	5.4%	9.4%

1978 - 1979

Top Ten States	Productivity	ES Staff to CLF Ratio	1979 IUR	1979 TUR
South Dakota	510.0	4.91	1.6%	3.5%
Iowa	465.5	2.98	2.0%	4.1%
Nevada	462.5	4.23	2.1%	5.1%
Utah	429.6	4.73	2.1%	4.3%
North Dakota	424.8	4.59	2.6%	3.7%
Oklahoma	420.1	3.84	1.4%	3.4%
Minnesota	417.7	2.29	1.9%	4.2%
Arizona	406.7	3.27	1.4%	5.1%
Colorado	405.6	2.41	1.4%	4.8%
Montana	401.5	5.17	3.5%	5.1%

Bottom Ten States	Productivity	ES Staff to CLF Ratio	1979 IUR	1979 TUR
Louisiana	276.4	2.45	2.2%	6.7%
Maine	269.9	2.64	3.7%	7.2%
Massachusetts	265.0	2.11	3.0%	5.5%
Pennsylvania	256.8	2.35	4.1%	6.9%
Alaska	246.7	8.32	7.8%	9.2%
New Hampshire	239.3	2.14	1.2%	3.1%
Dist. of Columbia	235.4	5.37	2.5%	7.5%
Maryland	235.4	1.38	2.2%	5.9%
Connecticut	202.9	2.30	2.3%	5.1%
Delaware	196.9	1.98	2.5%	8.0%

Last, the RAF resulted in strong emphasis on obtaining the highest placement counts possible. State ES personnel quickly learned a variety of techniques which increased numbers of placement per staff year, thereby increasing the potential of the state to receive rewards for high performance. For example, placing an individual in several short duration jobs resulted in a higher placement count than placing the same individual in one, permanent position. The emphasis on numbers diminished the willingness and motivation of the ES staff to work with clients who were difficult to place, who required specialized assistance or who were otherwise not "job ready."

Even though the RAF is no longer used to distribute ES resources, there remains a strong emphasis on number of placements. While placement productivity is an important measure of overall ES performance, there is little recognition of other key factors which influence the performance level in any given state. A placement rate of 350 persons per staff year may be very reasonable for a state with a relatively healthy economy, but it may be entirely unreasonable for a state with excessive and prolonged unemployment. Credits for placements do not distinguish between the applicants who are job ready and those who have barriers to employment which makes placing them a more difficult task. Finally, although the Department of Labor is now collecting information on applicants who "obtained" employment with the assistance of the Employment Service, but not directly as a result of an ES placement, no credit is provided for helping job seekers find jobs.

The Congress is considering new formulas for distributing ES resources which will shift the focus of allocations completely. The Senate proposal recognizes the relative share of the civilian labor force in each state, while the House Bill recognizes both CLF and unemployment levels to determine state allocations. The emphasis implicit in these factors concentrates ES staff in high population and, in the House formula, in high unemployment rate states as well. Performance standards, to be developed by the Secretary of Labor when the legislation is enacted, will need to change dramatically, with far less emphasis on numbers placed. Likewise, the policy emphasis for the Employment Service will need to be changed to focus on placing the frictionally and structurally unemployed.

Unfortunately, the new allocation formulas, if enacted, will move resources from many of the states which are currently the best performers under the current criteria. That is, states with low levels of unemployment and a smaller relative share of civilian labor force will be losing ES resources under the proposed formulas. In many cases, these states are rural, with highly dispersed populations, where the Employment Service has functioned very effectively as the major labor market intermediary. In spite of their effectiveness in meeting the needs of both employers and job seekers, these states will lose the ES staff they have accumulated during recent years. The emphasis implied in the new allocation formula and the 1982 budget reductions may leave some states with only skeletel ES staff. In fact, Congress has placed an absolute floor in the legislation at approximately 50 staffyears to prevent the total elimination of an ES program in smaller states such as Vermont, Delaware and Wyoming.

Since the administrative funds for the employment security system are federal Unemployment Trust Fund dollars, the federal partner has maintained extremely close controls over these funds. The federal emphasis on objective and controlled allocation mechanisms has resulted in many difficulties at the operating level for the state agencies. And, the interactions of these allocation mechanisms has brought about management arrangements which are counter-productive to the efficient operation of the system. In addition, some allocation mechanisms have tended to ignor such factors as growth in a state's labor force, changes in the composition of the labor force, and other factors which might influence a state's need for staff to meet the needs of the workers and job seekers in the state.

Planning State Employment Security Agency Operations

State agencies are required to develop complex program budget and planning documents each year, and submit them by July, for the coming fiscal year. The agencies receive staffing level targets and workload estimates describing the work they will be expected to accomplish, and the staff they will have available to do that work. Agency personnel spend months developing detailed, prescribed plans, and submit them to the federal partner for approval. Generally, the staffing targets are based on the Presidential Budget submission figures which are used by Congress in developing their budget resolutions and appropriation bills. However, Congressional action on the employment security budget isn't completed until late summer or, sometimes, after the beginning of the new fiscal year (October). It is quite normal that the appropriation for employment security differs from the President's budget. Therefore, in October or later, the state agencies often receive new staffing levels, based on Congressional budget and appropriation actions.

At that point, the federal partner requires the state agency to adjust its staffing in accordance with the Congressional appropriation, and requires that all the planning documents be updated to reflect these changes. The state agency's performance is then measured against its planning documents throughout the year. When the state's performance is not adequate to meet its planning target, the state must institute corrective action or suffer potential loss of resources as a penalty for failure to perform according to plan.

At the operational level, since the planning and budget process does not build up from the states, reflecting the state's estimates of workload and the staff needed to accomplish the work, there is little relationship between operational reality and the federal planning documents. When a state does not utilize its staff according to plan, as might occur when a major plant shuts down or when a flood disables a community, the operational plan will not match with the staff utilization reports. The state will be required to justify the differences in its use of staff, and when planning targets are not met, may be found out of compliance. Instituting corrective action plans, to bring the state back into compliance, may likewise require the diversion of staff from other critical program functions.

Additional difficulties arise because the planning cycles for the employment security system do not mesh with the planning cycles for other employment and training programs, such as CETA, and often do not mesh with state planning cycles either. Proposed legislation currently before the Congress will probably address some of the problems which have resulted from differences in planning cycles. The training legislation provides that the Employment Service planning cycles will be meshed with those for the training system.

ES planning will probably be coordinated with the training system and then, at the state level coordinated with UI planning when this legislation is enacted.

Cost Accounting in the Employment Security System

Every state agency must report, through the cost accounting and time distribution system, all the expenditures it makes for every line item within the budget it receives, four times each year. That is, the state agencies report the staff used to accomplish specific employment security tasks, the dollars these staff cost, the funds spent for supplies and other overhead costs, by program and fund source, every quarter of each year. If the state has overspent in a particular area, they are penalized and do not receive funds for that over-expenditure, even if they underspent in another area.

For example, a state agency may have been able to process all its UI workload with less than the earned staff for the quarter,[10] but might have been short on resources for the Employment Service. The state cannot use Employment Service resources for UI work or vice versa. It will be penalized for over expending in ES and will not be allowed to keep the resources it did not expend in the UI program. The process of normal budgetary adjustments requires that all unused resources be recaptured by the federal partner for later reallocation.

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[10] The UI program determines the amount of staff earned each quarter in terms of the numbers of claims activities (workload) accomplished each quarter and state specific measures of the cost for each type of workload item.

Operationally, these financial control systems result in state agencies operating four "mini-fiscal years" during the annual budget cycle. Each quarter is essentially a fiscal year. This situation does not enhance the agencies' ability to plan from quarter to quarter, and is insensitive to fluctuations in workload which are not predicted in the planning process. Furthermore, there is no incentive to underspend in a program, since the saved resources cannot be held from quarter to quarter, and cannot be used to offset even minor over-expenditures in other programs.

Effects of Federal Controls of State Operations

The combined effects of the complex of federal controls on state agency operations are to encourage staff intensive administrative arrangements, and to discourage efforts to reduce spending of budgeted funds, once they have been allocated to the state. Additionally, the motivations to perform become defined by the fiscal controls, the allocation mechanisms and the planning process, rather than the achievement of the basic goals of the system.

The UI Cost Model, RAF and the AS&T/NPS model are only three allocation devices which affect the daily operation of the employment security system. Funds for the Food Stamp work test program, the Work Incentive Program, and the Labor Market Information program are also allocated to most state agencies utilizing separate mechanisms. (A few state agencies no longer operate WIN or Food Stamp functions. In 1983 and beyond, the continuation of food stamp and work incentive activities in any agency is unclear.) Furthermore, many state agencies are directly involved with the CETA program, as prime sponsors for the balance of state, or by providing various services to CETA prime sponsors.

There are multiple funds which make up a particular state's operating budget, each of which must be handled entirely separately from the other, and each of which may be subject to multiple reporting and financial control systems.

While the emphasis in the public sector is, and should be, to operate the most cost-efficient program possible, the current financial management of the system penalizes state agencies which attempt to achieve this goal. The outcome of such penalties, combined with the tight operating budgets in recent years, is the creation of disincentives to implement operational improvements. The most clear example of this dilemma, as previously mentioned, occurs in the area of automation of major program functions.

Each administrative requirement developed by the federal partner and implemented in the states has a cost associated with it. For example, the operation, special studies, and maintenance of the UI Cost Model averaged $8 million per year until 1981. The costs associated with other models, such as the AS&T/NPS Model, or reporting devices are unknown. The states have no freedom to implement alternative management systems which would be cheaper or improve operations. Additionally, state agencies must operate within the requirements established by state policy. This can involve two different fiscal years, conflicting planning cycles and overlapping reporting requirements.

A reform of the current administrative arrangements, and the costs of these arrangements, promises to yield improvements in daily performance of employment security functions, to reduce the costs of doing business and to better serve the clients of the system.

SECTION III

THE EQUITY ISSUES

Aside from the question of how much funding is required to operate the employment security system, and how the management arrangements should be established, there are questions regarding who should bear the costs of the system. At present, the distribution of financial responsibility results in legitimate questions regarding the equity of the distribution of the tax burden. In addition, there are questions regarding the equitable division of resources among the states. Section III will identify some equity issues. These issues cannot be addressed necessarily by simply solving the problems identified in either Section I or II.

Distribution of the Responsibility for Financing Benefit Costs

Employers are technically responsible for almost all UI benefit costs. Only UI benefits paid under the federal unemployment programs (for ex-military and ex-civilian employees) and federal income protection programs are financed from other revenues. The payroll taxes collected by both state and federal governments are intended to fully finance the costs of regular and extended benefits, to repay all the indebtedness the trust fund accounts have incurred, and to provide a loan fund for the states. While it is clear that current benefit financing mechanisms are not sufficient to meet the obligations just described, there is a question as to equitable distribution of the responsibility for these costs.

The underlying assumptions of equity for the existing benefit financing arrangements clearly imply that a state's employers are responsible for the costs of all regular benefits and half of the extended benefits paid to claimants in each state. A fundamental tenant of the federal-state system is that the state legislature, in consultation with the state's employers, employees and citizens, is in the best position to determine the type of unemployment insurance benefits needed in each state's economy. Thus, a state legislature is free to establish benefit systems which differ from those in other states. However, when a state law provides an amount and duration of weekly benefits there is an implied responsibility that the state's employers will pay for, through tax contributions, the costs of those benefits. In the case where employers are unwilling to pay the costs of benefits, a state can reduce benefit availability, though this has generally not been done.

Difficulties can arise, however, when the tax structure is not adequate to cover the costs of benefits a state is paying. There are several factors which can bring about insolvency in a state. At one extreme, an unpredictable increase in unemployment, resulting in dramatic growth in the numbers of claims, can overwhelm a state taxing mechanism. At another extreme, a state may choose to increase benefits, usually by raising the weekly benefit amount, without likewise adjusting the tax structure to cover the costs of the increased benefits. Naturally, these two conditions may interact since a state may both increase its weekly benefit amount and experience an unpredictable increase in unemployment as well. These circumstances can quickly undermine the capacity of a state financing mechanism to meet benefit costs.

Under present law, there is no relief for a state's employers when the state's economic conditions deteriorate, even if the causes of the deterioration are clearly at the national or international level. Thus, no matter what level of unemployment, the employers in a state are liable for the costs of all regular benfits paid to eligible claimants in the state. When state unemployment reaches levels statutorily defined as high, the extended benefit program becomes available. The state's employers are responsible directly for 50 percent of the costs of these benefits, and they have contributed to the national pooled funds in the EUCA account, which pays the other 50 percent of extended benefits.

Given these assumptions, an examination of state laws should reveal that state benefit financing mechanisms are structured to generate sufficient revenues to meet the predictable benefits costs the state might experience. Unfortunately, this is not always the case. There are states which have automatic escalators for the weekly benefit amount provided to claimants, but do not have automatic increases in their taxing mechanisms to meet the costs which will accrue as higher benefits are paid. Other states have been caught in a gridlock between tax reduction initiatives, often preventing enactment of increased taxes, and rising benefit costs associated with higher unemployment rates in certain industries (e.g., the auto and related industries). In some cases, the state legislatures have been motivated to hold down employer taxes at the state level, in an effort to minimize the inflationary effects of increased payroll taxes. There are a variety of imbalances in many state benefit financing structures which, at the bottom line, mean that the state's employers are not meeting their full responsibility to finance the costs of state regular benefits and the state share of extended benefits. These imbalances range from those which are caused by factors beyond the state's control, such as national economic policies resulting in higher unemployment, to those factors which a state can control, including financing increased benefit availability.

A most poignant example of the impact of these underlying assumptions involves the state UI debts associated with the 1974-75 recession. One effect of the Arab oil embargo and its impact on energy costs, was the increased risk of unemployment for millions of Americans. Twenty-one states were unprepared to respond to the rapid increases in the numbers of unemployed and the massive outlays of regular and extended benefits between 1974 and 1977. The state benefit financing mechanisms in those borrowing states were not designed to respond to such an unpredictable exposure to the risk of unemployment.

The 1974-75 recession experience raised serious questions about the meaning of solvency for benefit financing mechanisms especially during recessions. The following types of issues are part of the solvency debate which often intensifies during periods of exceptionally high unemployment.

- Should a state be expected to generate state trust fund reserves large enough to meet a doubling, tripling or even quadrupling of outlays in a period of one year or less?
- Is there a level of unemployment which can be defined as so unpredictable that it becomes catastrophic?
- Is there a level of unemployment which is no longer the responsibility of an individual state and its employers to finance?

- Who should pay for high levels of unpredictable unemployment if a state's employers do not? Should the nation pool employer taxes to meet this type of unemployment? Should all taxpayers, through federal general funds, bear the costs of such high unemployment?

- Should all states receive supplementation, based on objective measures of their share of catastrophic unemployment, and what revenue should finance this supplementation?

There are more questions raised for every answer developed to these questions. There have been many proposed solutions to the issues raised by the questions, several of which are covered by the National Commission on Unemployment Compensation's Final Report, but none have been adopted.

It is possible that the inabilty to come to grips with these types of questions has contributed, in part, to the current benefit financing crisis. It is clear that the extraordinarily high unemployment rates during 1981 in the Northeast and Midwest, and the high rates which developed 1982 nationally, have resulted in serious inadequacies in many state trust funds again. Table XIII presents national and state insured unemployment rates for 1974, 1975, 1976, 1980 and 1981. Chart III depicts the patterns of the total and insured unemployment rates between 1974 and 1982.

The dilemma during recessions is generally the same. If employers taxes are raised during a recession, the chances are many employers will be forced to lay off more persons in order to pay the increased taxes.

Table XIII
Calendar Year Insured Unemployment Percentage Rates

	1974	1975	1976	1980	1981[1/]
United States	3.40	6.10	4.40	3.85	3.50
Alabama	2.90	6.40	4.30	4.52	4.04
Alaska	6.60	5.90	7.60	7.56	6.84
Arizona	3.10	6.50	4.30	2.41	2.40
Arkansas	3.30	7.90	4.70	4.90	4.38
California	4.40	6.40	5.00	3.81	3.79
Colorado	1.60	3.30	2.70	1.94	2.05
Connecticut	4.00	7.00	5.70	2.66	2.59
Delaware	3.20	5.50	3.90	3.35	3.32
District of Columbia	2.30	3.80	3.40	2.78	3.11
Florida	2.20	4.50	3.80	1.84	1.70
Georgia	2.10	6.10	3.30	2.54	2.49
Hawaii	4.00	4.50	4.90	2.67	3.01
Idaho	3.80	5.30	4.40	5.44	5.05
Illinois	2.30	5.80	5.20	4.71	4.55
Indiana	2.30	5.40	2.40	4.39	3.21
Iowa	1.50	3.70	2.90	3.31	2.89
Kansas	2.00	3.40	2.60	2.65	2.34
Kentucky	2.80	6.20	4.00	5.46	4.56
Louisiana	2.90	4.10	3.50	2.45	2.64
Maine	5.00	8.20	6.00	4.45	4.21
Maryland	2.80	5.50	3.80	3.12	3.14
Massachusetts	5.30	8.10	5.50	3.24	3.36
Michigan	5.90	8.80	5.40	8.81	6.02
Minnesota	2.70	4.40	3.50	3.02	2.86
Mississippi	2.00	5.60	3.30	4.08	3.91
Missouri	3.00	6.00	3.90	4.34	3.82
Montana	3.80	5.20	4.50	4.51	4.06
Nebraska	1.80	3.80	2.40	1.92	1.96
Nevada	5.00	6.40	5.10	3.00	3.28
New Hampshire	2.80	6.70	3.30	2.10	2.11
New Jersey	5.50	8.10	6.30	4.58	4.28
New Mexico	3.70	5.50	4.20	2.73	2.73
New York	4.40	7.00	5.60	3.87	3.35
North Carolina	2.20	7.10	3.50	2.92	2.97
North Dakota	2.80	2.90	3.30	3.31	2.96
Ohio	2.10	5.10	3.00	5.06	4.17
Oklahoma	2.50	4.00	3.20	1.64	1.36
Oregon	4.60	7.20	5.40	5.44	5.81

Table XIII (cont.)
Calendar Year Insured Unemployment Percentage Rates

	1974	1975	1976	1980	1981[1]
Pennsylvania	4.10	7.60	6.00	5.29	4.48
Puerto Rico	11.50	15.60	15.10	6.94	7.67
Rhode Island	5.40	9.70	6.00	5.28	4.98
South Carolina	2.50	7.80	3.70	3.42	3.72
South Dakota	1.60	2.90	2.40	2.05	1.97
Tennessee	2.70	6.80	4.10	4.28	3.84
Texas	1.10	2.20	1.60	1.43	1.13
Utah	2.60	4.50	3.60	3.02	3.14
Vermont	5.30	8.20	6.10	4.31	3.83
Virginia	1.10	3.40	2.00	1.94	1.90
Washington	6.40	8.40	7.00	4.56	4.96
West Virginia	3.40	5.40	4.20	5.29	5.92
Wisconsin	2.70	5.70	3.90	5.26	4.75
Wyoming	1.20	2.10	1.80	1.38	1.71

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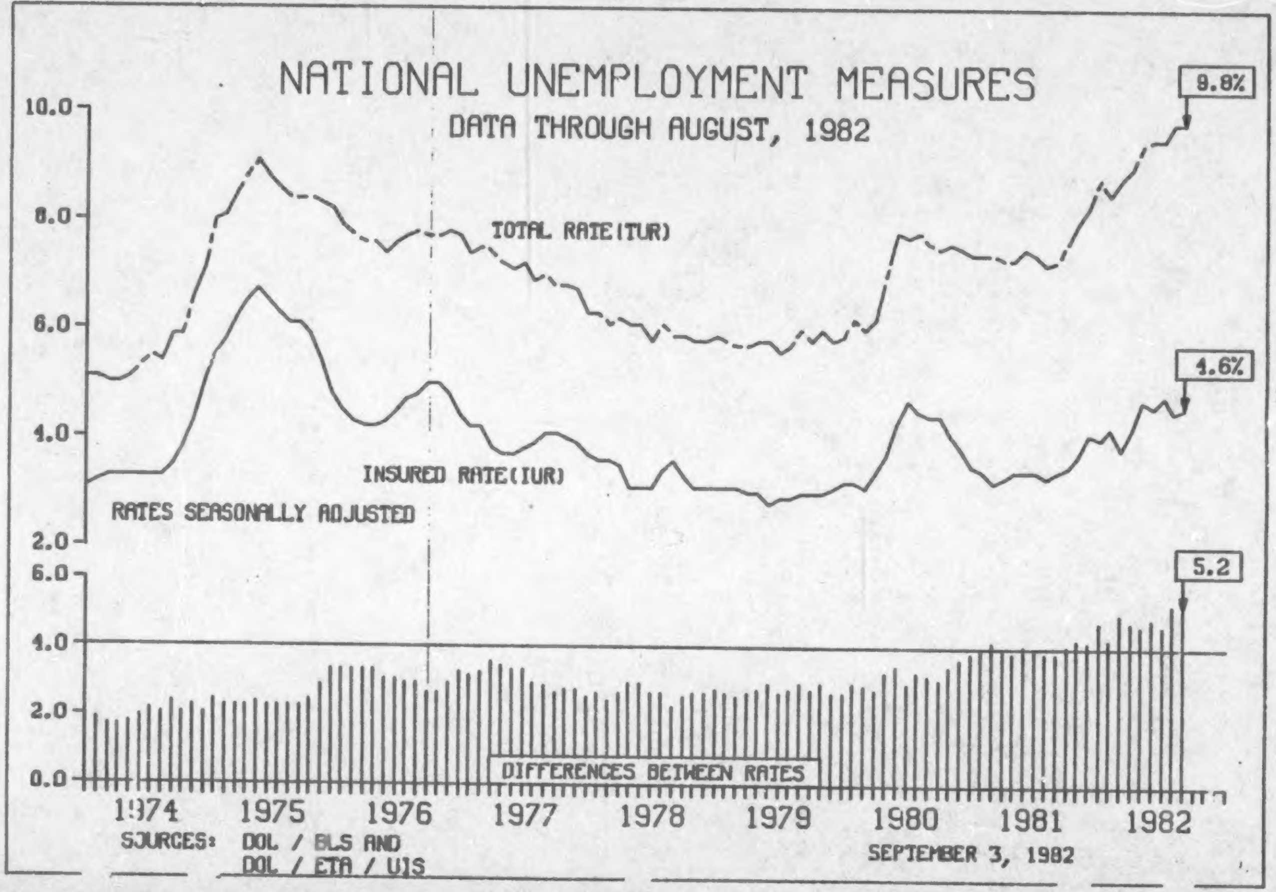
[1] Using current employment for 12 months ending June 1981

Source: DOL/ETA/UIS Division of Actuarial Services March 15, 1982

Chart III



SOURCES: DOL / BLS AND
DOL / ETA / UIS

SEPTEMBER 3, 1982

conversely, if state taxes are not raised, debt to the Federal Unemployment Account will increase as more and more funds are borrowed. Furthermore, during the recovery period after a recession, there may be a motivation to avoid tax increases due to the fears that such increases will have an inflationary effect on the economy. When taxes are not increased, the recovery must be of sufficient duration and employment must increase enough to generate sufficient revenues to repay the debts and build up the state's reserves. Unfortunately, recent recessions and recoveries have occured in such close succession that many states have simply never been able to enact a benefit financing structure which will catch up with the current and future costs of benefits and repay the state's outstanding debts.

The cyclical effects of recessions and shallow recoveries, combined with new more stringent repayment and interest provisions, have raised the specter that serious competitive disadvantages between debtor states and other non-borrowing states will occur. For example, many Northeast and Midwest states have experienced extremely excessive and prolonged unemployment during both the 1974-75 and 1982 recessions. Table XIV displays selected state experience in recent years. Many debtor states face significant increases in employer taxes, either voluntarily by state legislation, or involuntarily through the loss of FUTA offset credits, just to repay indebtedness. If unemployment taxes for the borrowing states are raised to very high levels, there may be lessened incentive for employers to remain in these states, and less incentive for new employers to locate in these states. On the other hand, many business organizations report that it is the long-term stability and solvency of a

Table XIV
Selected State Insured Unemployment Rates for Borrowing and Non-Borrowing States

Borrowing States	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981[1/]	1982[2/]
Connecticut	4.1	3.0	4.0	7.0	5.7	4.3	2.8	2.3	2.7	2.6	3.25
Delaware	2.1	1.9	3.2	5.5	3.9	3.6	2.8	2.5	3.4	3.3	2.93
Illinois	2.4	1.8	2.3	5.8	5.2	4.3	3.2	3.0	4.7	4.5	5.00
Michigan	3.9	2.8	5.9	8.8	5.4	4.4	3.7	4.7	8.8	6.0	6.65
New Jersey	4.7	4.3	5.5	8.1	6.3	5.4	4.2	4.3	4.6	4.3	4.50
New York	4.2	3.5	4.4	7.0	5.6	4.9	3.9	3.6	3.9	3.4	3.60
Ohio	2.0	1.3	2.1	5.1	3.0	2.6	2.1	2.8	5.1	4.2	5.45
Pennsylvania	3.7	3.1	4.1	7.6	6.0	5.6	4.2	4.1	5.3	4.5	6.21
Rhode Island	4.5	4.3	5.4	9.7	6.0	5.6	5.6	4.8	5.3	5.0	5.74
Non-Borrowing States											
Arizona	1.8	1.7	3.1	6.5	4.3	2.9	1.6	1.4	2.4	2.4	4.00
Florida	1.4	1.2	2.2	4.5	3.8	2.8	1.9	1.7	1.8	1.7	2.37
Idaho	3.6	3.2	3.8	5.3	4.4	3.9	3.0	3.5	5.4	5.1	6.65
Kansas	1.9	1.5	2.0	3.4	2.6	2.4	1.6	1.6	2.7	2.3	3.93
North Dakota	3.1	2.7	2.8	2.9	3.3	3.8	2.8	2.6	3.3	3.0	2.93
Oklahoma	2.4	2.1	2.5	4.0	3.2	2.3	1.3	1.4	1.6	1.4	2.49
Texas	1.2	0.9	1.1	2.2	1.6	1.4	1.2	1.1	1.4	1.1	1.71
Utah	2.9	2.5	2.6	4.5	3.6	3.0	2.1	2.1	3.0	3.1	4.41
Wyoming	1.5	1.3	1.2	2.1	1.8	1.5	0.9	0.8	1.4	1.7	3.35

[1/] Preliminary calendar year IUR utilizing covered employment for 12 months ending June 1981.

[2/] As of July 10, 1982, based on the extended benefits trigger notice.

Sources: Handbook of Unemployment Insurance Financial Data, and Department of Actuarial Services, ETA/DOL.

state benefit trust fund, rather than the actual tax rate, which influences business location decisions.

Striking the appropriate balance between the state taxes and the potential for benefit outlays is a difficult task. In the years since the mid-1970s, few states have been prepared for the waves of economic instability the nation has experienced. To address and improve the balance between state taxes and the potential for benefit outlays, states will need to carefully examine the adequacy of the current benefit financing mechanisms. Some of the questions which must be addressed involve the relationship between the state wage base and the state's average annual wage in covered employment. As is true on the federal level, it is clear that a wage base tied to the average annual wages in the state puts the state in a better position to generate revenues adequate to meet the on-going costs of state regular benefits. In addition, higher wage bases ensure that both low wage and high wage employers contribute in proportion to the wages they pay. States must also examine their experience rating system to ensure that the range of tax rates is wide enough to genuinely reward those employers who bring about little or no unemployment. Conversely, employers who experience high turn-over rates should pay a fair share of the costs which are associated with benefits paid to their former employees.

The long range financial stability of the UI system will require resolving the current inadequacies of benefit financing mechanisms. Inadequacies which are a result of recessionary influences will probably require different solutions than inadequacies which are the result of a failure in the state taxing mechanisms to finance non-recessionary costs. In addition, it seems likely that some alternative mechanisms for disposing of state debts resulting from recessions will be desirable. If employers are to continue to bear the full costs of UI benefits, it will be necessary to require some solvency standards to ensure state taxing mechanisms are adequate to fund benefit costs.

Distribution of the Responsibility to Finance Administrative Costs

At present the costs of operating the employment security system are almost entirely born by private sector employers. Several consumers of the system's insurance and services do not contribute toward the administrative costs. As previously stated, public sector employers who make up approximately 18 percent of all employers do not contribute to administration. The major beneficiaries of employment services and unemployment compensation, job seekers and unemployed workers, do not contribute toward the system's operating costs either. Employers in some states bear a proportionately large contribution burden for administrative costs relative to the proportion of funding returned to these states. As services are reduced by budget cuts, these employers question continuing the same or an increased rate of taxation.

Some of the questions being raised currently point to the importance of a thorough review of the missions assigned to the employment security system. For example, few individuals support the continuation of many enforcement functions imposed on the Employment Service. Included in these are such activities as rural loan certifications, migrant and seasonal farmworker housing inspections, and certain activities required for the temporary admission of alien workers in the United States. In addition, programs of special service to veterans who are disabled or of the Viet Nam era should probably be financed by federal general funds, rather than FUTA funds as at present. Similarly, in the unemployment insurance arena, it seems logical the special income assistance programs for particular groups of workers (i.e., airline employees, employees dislocated by trade impacts), should be supported by non-FUTA financed administrative resources.

Sorting through the functions of the employment security system will permit identification of those functions which are appropriately financed by the employers of the nation and those which are appropriately the responsibility of all taxpayers. Some functions probably should be removed from the employment security system, and some should remain but should be general revenue financed. To accurately determine the amount of FUTA funds required to operate the employment security system, there must be agreement regarding what is appropriately a part of the employment security system, and what parts of the employment security system are the responsibility of employers to finance. Lastly, when new assignments are given to the employment security system, appropriate administrative funding must be associated with the new work. Simply requiring the system to absorb administrative costs has never been in the best interests of the nation's employers, who pay the costs, or of the clients who need the system's insurance and services.

It may be reasonable to expect that some missions of the employment security system will be diminished in an effort to balance the needs of the clients of the system with the costs associated with the services. Conversely, it is possible that a streamlined set of missions for this system will result from a review of the type suggested, yielding a more responsive, efficient and cost-effective system.

Distribution of Administrative Resources

Under present statutes, administrative resources are pooled nationally and distributed according to unemployment insurance workload, historical costs, and other factors. An entirely different set of equity questions arises due to the methods by which these resources are divided among the states.

To accomplish the equitable distribution of limited resources, the federal partner has wished to minimize subjective factors in favor of objective criteria. The UI Cost Model is meant to divide the available resources up in terms of actual workload which is processed, so that an individual state will only be paid for what it accomplishes and uses to process specific workload. Obviously, then states with high unemployment rates will generally be entitled to more resources than states with low unemployment. However, due to differences in state-specific MPUs,[11] measuring the amount of time required to process specific types of workload, combined with state average cost rates, some low unemployment states receive more resources per workload item then some higher unemployment states. And, in states which have automated UI functions, the relationships between workload, costs and allocation differences relative to other states, are extremely variable.

The Resource Allocation Formula, which distributed resources primarily on the basis of placement performance, was meant to maximize a beneficial outcome, placements in jobs. The states able to perform well apparently did so for a variety of reasons, including the luck of timing, the good fortune of economic growth, and the absence of depressed industries in those states.

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[11] MPUs or "minutes per units" are measures of the average time required to process particular items of UI workload. MPUs are a major product of the UI Cost Model.

Last, the AS&T/NPS model meant to divide resources such that all states (regardless of the peculiarities of management or organization) receive a fair share of overhead which supports its staff and program requirements. Admirable though the goal, the definition of a state's share is the result of a rather arbitrary model. Furthermore, the data base established in 1979, upon which the model is based, no longer reflects relationships in the field due to the reductions in staff and local office closures in 1982. The basic data base, upon which the model is based, is completely different. It is extremely likely that the model's equations no longer reflect the new relationship between overhead cost and agency size. Furthermore, the AS&T/NPS model moves resources to those states which have remained most labor intensive and have avoided automation; and in turn penalizes states which attempt to reduce staffing through cost efficiencies.

The combined effects of these three allocation methodologies over the last few years has been to cause increasing tension between the federal and state partners. And recently, there has been increasing debate about the equity of the distribution of the pooled employer taxes in terms of each state's contribution to that pool of resources. That is, states are asking why their employers should pay into a FUTA pool for administrative funding when the allocation of these resources seems to be so detrimental or arbitrary to many states. There is reason to reexamine the principles of pooling and redistributing administrative resources.

Analysis of the distribution of responsibility for financing the cost of both benefits and administration may yield a far more responsive, flexible and self-sufficient system. Thought should be given to the appropriate uses of the pooled employer taxes including a thorough sorting out of inappropriate and appropriate uses of these resources. Such a sorting out process will facilitate an accurate determination of those functions which properly belong in the employment security system. Only after agreement has been reached regarding appropriate employer financed UI and ES functions, can an accurate cost estimation for the system be developed.

SECTION IV

LEGISLATIVE ACTION

There are two major legislative initiatives, one pending and one just enacted, that address some of the problems which have developed in the employment security system. A short discussion of these proposals and their implications will complete this review of the employment security system.

The Employment and Training Legislation

The authorization for the CETA program expires September 1982. Both the House and Senate have worked very diligently to develop new legislation which will replace the CETA law. The major thrust of these bills is to provide training and retraining to individuals who are either economically disadvantaged, have been dislocated from permanent employment, or have been unemployed for a long duration. The programs defined in each bill provide for a variety of skills training, on-the-job training, and other types of assistance which will improve the employability of eligible participants. In addition, both the House and Senate bills contain amendments to the Wagner-Peyser Act which authorizes the Employment Service.

The focus of the Wagner-Peyser amendments is to clarify the Employment Service mission and to bring ES functions into harmony with the training programs operated at the local and state levels. The legislation provides for coordination of planning through the joint efforts of the ES, the local elected officals, and the prime sponsors. The legislation provides for major changes to the Labor Market Information program, as well. It appears that there will be a substantial reorganization and consolidation of these activities, with the major direction of these programs resting with the Governors of each state.

It is clear that the Employment Service will be changed and integrated more closely with the training system. This bodes for a greater separation between the ES and UI programs than has been true in the past. The implications of the greater separation are important, since no modification to the source of ES funds has been included in the legislation.

Streamlining the basic missions of the Employment Service will be very helpful in accomplishing part of the sorting out of functions called for earlier in this paper. However, if FUTA is to continue to finance the majority of ES program costs, care must be taken to ensure that the activities of the Employment Service remain consistent with the intent of FUTA. Therefore, the focus of ES activities should be to serve the employers, the unemployment insurance claimants and the job seekers of the nation. It should be noted that quick placement in jobs will shorten UI benefit deliberation and, thus effect savings in the benefit trust funds. Should ES functions become directed at serving those individuals who are not employable, due to barriers or insufficient skills, it is likely that a source other than FUTA should finance such activities.

The legislation does not address the adequacy or inadequacy of the amount of funds which are available to finance the Employment Service. Presumably, this means that the Employment Service staffing levels will continue to be eroded through budget reductions. It is unfortunate, indeed, that little or no effort has been expended to determine a reasonable basis for establishing an adequate ES staff to accomplish the functions contemplated by the legislation. Furthermore, since the notion of staff year levels for the Employment Service will be eliminated, relying rather on dollar allocations, there will be little opportunity to work for a staffing ratio of 4 ES staff to 10,000 members of the civilian labor force.

The resources which are made available will be distributed on the basis of a combination of the CLF and numbers of unemployed individuals in each state. The new allocation formula will shift resources, as mentioned earlier, to high population and high unemployment states. The legislation does include a hold harmless provision which will move resources over a period of years. The advantage of the hold harmless provision is that it does not totally disrupt the delivery of employment services in those states which will lose the majority of their resources. On the other hand, the impact of the hold harmless will mean several years must pass before a significant readjustment in resources occurs.

It is interesting to note that an absolute floor, or minimum funding level, will be guaranteed in each state. This provision requires that no state receive less than 0.28 percent of funds available for allocation. In terms of fiscal year 1982 funding this is equivalent to approximately fifty staffyears. At present, three states (Delaware, Vermont, and Wyoming) are most likely to benefit from this floor level. It is difficult, however, to imagine a full functioning labor exchange for an entire state, particularly one the size of Wyoming, being provided for by the equivalent of fifty staff.

Additional states which are likely to reach the floor level soon include Alaska, Hawaii, Idaho, Nevada, New Hampshire, North Dakota, and South Dakota unless additional funds for the basic labor exchange are provided. The inclusion of the floor level provision is indicative of concern that there will not be sufficient resources to provide more than fifty staff in some states.

The employment and training legislation may provide assistance to Employment Service by clarifying the mission it is to accomplish, by creating stronger cooperation with the training system, and by coordinating ES planning with the training community. On the other hand, this legislation does not address the inadequacy of resources to finance the basic labor exchange. The removal of some inappropriate functions from ES activities may partially relieve the funding crisis, but it appears that there will continue to be an erosion of the basic ES system in the immediate future. Last, while the proposed allocation formulas will shift resources, in a reduced budget environment this will continue to mean that the overall system will suffer. Many of the highest performing states will lose resources under the new "needs-based" formula.

It seems clear that the problems of the Employment Service will only be solved fully if the issues raised in the early sections of this paper are addressed. Thus, more adequate funding, improved administrative arrangements, and the equitable distributuion of resources are still keys to ensuring the nation will be served by a viable labor exchange system.

The FUTA Tax Legislation

The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), signed into law on September 3, 1982, provides for the following major actions regarding the FUTA tax:

- The federal wage base will be increased from $6,000 to $7,000 effective January 1, 1983.
- The FUTA tax rate will be increased from 3.4 percent to 3.5 percent on the same date. Employers in states with no outstanding debts and conforming UI laws will pay 0.8 percent on the first $7,000 in wages paid to covered employees, rather than 0.7 percent on the first $6,000 in wages.
- On January 1, 1985, the FUTA tax rate will increase to 6.2 percent, comprised of a permanent tax of 6.0 percent and an extended benefit tax of 0.2 percent, with a tax credit available to employers of 5.4 percent. Therefore, employers will continue to pay 0.8 percent in non-borrowing states with conforming state laws.
- Incoming FUTA revenues will be split between the Extended Unemployment Compensation Account and the Employment Security Administration Account on the basis of different portions effective in April, 1983. Forty percent of FUTA revenue will be transferred to EUCA which means 0.32 of the 0.8 percent will be allocated to EUCA for the repayment of the EB/FSB

debt, and for the current costs of the extended benefit program. The remaining 60 percent, or 0.48 percent of the 0.8 percent, will remain in ESAA, subject to the usual 95 percent limitation provisions.

- Weekly benefit amount computation formulas must round down to the next lower dollar, rather than rounding up to the next highest dollar.

- Interest payments on outstanding UI advances may be partially deferred in states with an insured unemployment rate at or above 7.5 percent during the first six months of the prior calendar year. In such cases the state may pay 25 percent of interest due in the following calendar year. Then, the state will repay 25 percent of the remaining interest due, plus interest on the deferred interest, in the next three years. This provision has a retroactive effective date of April 1, 1982, permitting Michigan to qualify in calendar year 1982 for deferred interest payments due in calendar years 1983 through 1986.

- The provision requiring adjustment of the reduction in FUTA off-set credits in the fifth year of repayment of outstanding advances is modified. The comparison of state average tax rates with the state benefit cost rate is eliminated. However, the average tax rate must still equal or exceed 2.7 percent in the fifth year of repayments.

There were several other minor and technical amendments included in this legislation. The modifications to the FUTA wage base and tax rate will increase FUTA revenues by $1.404 billion in 1983, $2.353 billion in 1984 and $2.856 in 1985. The Senate Finance Committee, which proposed most of these modifications, states in its report on the legislation:

> The unemployment program is seriously underfinanced. Recessions of the 1970s and inadequate State and Federal funding have led to substantial deficits currently being financed through Trust Fund borrowing from the Federal Treasury. Outstanding borrowing from the Treasury was equal to $13.1 billion at the end of fiscal year 1981. Total State debt to the Trust Fund is expected to increase in 1982 because of additional State borrowing.

The Senate report language clearly sets forth recognition of serious inadequacies in the current taxing arrangements. The Senate recommendations will influence both the amounts of federal revenues generated through the FUTA tax, and after January 1985, will cause the state average taxes to increase in virtually all states. That is, when the FUTA tax rate is doubled, states will not be permitted to offer a tax which is lower than 5.4 percent to employers unless such lower taxes are the result of experience rating. Table XV lists the current state wage base and the current average tax contribution rates paid by each state's employers. These averages will increase as nearly all states will increase tax rates for new employers, and will also increase taxes for current employers in many cases.

The FUTA tax increases will also mean that debtor states may be assessed higher incremental FUTA tax increases over the years. In many states, employers will pay an additional 0.3% in FUTA taxes, each repayment year until state indebtedness is eliminated. With the higher permanent FUTA tax, some state

Table XV
Average Employer Contribution Rates by State

State	Tax Base $6,000 Except As Shown	1982 Estimated	
		Taxable	Total
Total	$6,000	2.6	1.1
Alabama	$6,600 (1/78)	1.9	0.9
Alaska	$14,600 (1/82)	3.0	2.0
Arizona		1.2	0.4
Arkansas	$6,900 (1/81)	2.5	1.4
California		2.8	1.0
Colorado		1.2	0.6
Connecticut		2.3	0.8
Delaware	$6,600 (1/82)	3.4	1.0
District of Columbia	$7,500 (1/82)	3.0	1.2
Florida		1.0	0.4
Georgia		1.4	0.5
Hawaii	$13,100 (1/82)	1.7	1.2
Idaho	$13,200 (1/82)	2.1	1.4
Illinois	$7,000 (1/82)	3.8	1.4
Indiana		2.8	1.1
Iowa	$8,700 (1/82)	2.4	1.2
Kansas		2.5	1.1
Kentucky	$8,000 (1/82)	4.9	1.9
Louisiana		2.1	1.0
Maine		3.1	1.3
Maryland		2.5	0.8
Massachusetts		3.3	1.4
Michigan		4.1	1.3
Minnesota	$8,300 (1/82)	2.4	1.1
Mississippi		2.9	1.4
Missouri	$6,600 (1/82)	2.7	0.9
Montana	$8,000 (1/82)	2.7	1.4
Nebraska		1.8	0.7
Nevada	$9,300 (1/82)	1.7	1.0
New Hampshire		1.4	0.6

Table XV (cont.)
Average Employer Contribution Rates by State

State	Tax Base $6,000 Except As Shown	1982 Estimated Taxable	1982 Estimated Total
New Jersey	$8,200 (1/82)	3.4	1.6
New Mexico	$8,500 (1/82)	1.7	0.9
New York		3.1	1.1
North Carolina		1.6	0.7
North Dakota	$9,240 (1/82)	2.7	1.5
Ohio		2.9	1.1
Oklahoma		0.8	0.4
Oregon	$11,000 (1/82)	2.9	1.7
Pennsylvania	$6,600 (1/82)	4.1	1.6
Puerto Rico	Total (7/74)	3.0	3.0
Rhode Island	$8,600 (1/82)	4.1	2.3
South Carolina		1.9	0.9
South Dakota		1.6	0.8
Tennessee		2.8	1.0
Texas		0.6	0.3
Utah	$12,000 (1/81)	1.7	1.1
Vermont		3.2	1.5
Virginia		1.8	0.8
Virgin Islands	$8,000 (1/82)	3.1	1.6
Washington	$10,800 (1/82)	3.0	1.7
West Virginia	$8,000 (1/82)	4.8	2.1
Wisconsin		2.7	1.1
Wyoming		2.5	1.5

NOTE: State estimated and actual rates were furnished by State Employment Security Agencies.

Source: Division of Actuarial Services, ETA/DOL.

employers may face increasing FUTA taxes over the next several fiscal years (up to 17 years). These higher taxes would remain in effect until the state's employers had repaid the state's debt.

The question is will the FUTA wage base and tax rate increases solve the financial crisis facing the employment security system? Certainly, the increased FUTA revenues will assist in making more rapid repayment of the Extended Unemployment Compensation Account and Federal Unemployment Account indebtedness. Additionally, this increase will provide additional resources for administration of the federal and state employment security responsibilities. However, the additional resources will not be sufficient to provide for restoration of the Employment Service to a pre-1982 position level. In fact, the resources available will just barely provide for an Employment Service staffing level of between 21,000 and 24,000 positions nationally and the UI staffing, cut by 1,000 positions, to process the unemployment insurance workloads. Even the increased FUTA resources will be stretched beyond capacity should unemployment continue at the present high levels beyond 1983. The increased resources will not provide for much needed automation projects for the UI program, will not pay for their maintenance, and may not cover the increased overhead costs currently being experienced in the employment security system.

The steps taken by Congress this year to increase FUTA resources and expand the range of state taxing structures can be thought of as interim solutions. These tax initiatives do not, however, address other fundamental questions raised earlier in the paper. The problems emanating from the current federal controls on the administration and management of the system remain untouched by this initiative. Additionally, there is little change in the distribution of the responsibility to pay the costs of the system, although employers in debtor states will be paying a stiffer tariff for the state's borrowing. Public sector employers will continue to use the system without providing for its administrative costs. Last, there is no improvement in the equity of resource distribution brought about by the increases in the FUTA wage base and tax rate. In fact, those states which are receiving a low return on the FUTA dollars paid by their employers may receive an even smaller share, as their employers begin paying higher FUTA taxes.

Future Legislation

During the first six months of 1982, concerns have been raised about the impact of the earlier restrictions placed on the extended benefit program. In fact, Congress has recently enacted a special extension program, the Federal Supplemental Compensation Program (P.L. 97-248). This program will provide federal general revenue financed benefits for persons exhausting regular or extended benefits in all states. In states experiencing sustained, high unemployment, this program will provide up to 10 additional weeks of compensation. Six or eight weeks of additional benefits will be provided in all other states depending on the state unemployment rate. In addition, several states have enacted or reimplemented state financed extensions to address the needs of claimants exhausting both state and extended benefit entitlements. It is becoming more clear that some permanent form of a third tier of benefits, such as the Federal Supplemental Compensation (FSC) program, is necessary during particularly deep recessions. It seems likely Congress will carefully monitor the effects of the emergency FSC extensions provided in 1982 with a view toward establishing a permanent mechanism for certain recessionary periods.

The current repayment provisions which will require FUTA tax increases in many states over the next ten years may also stimulate Congressional review of the adequacy of state financing mechanisms. This would be particularly appropriate if Congress reviews the conditions of making loans to states, as well as the impact of the interest and repayment provisions on several states. While it will be important to provide for loans in the future, it appears that it may be desirable to require some form of solvency standards as a condition of borrowing as well.

The recent widespread layoffs of government workers at the local, state and federal levels is placing a severe demand on the already thin administrative resources in the employment security system. Each person's ES and UI needs must be served, whether they have previously worked for a private or public sector employer, but only the private sector employers are paying taxes to support these services. Hopefully, Congress will review the status of administrative funding in the employment security system and consider providing additional resources to cover the costs of services to the workers and former employees of public sector employers.

Both Congress and the federal partner must review the array of federally required administrative arrangements imposed on the employment security system. A thorough review of these many systems, as well as of all functions assigned to the employment security system, is required. Removal of many currently assigned functions from the employment security system requires legislation either reassigning these functions or eliminating them. The motivation for completing such a review and enacting legislation to remove inappropriate functions is the potential for reduced costs and improved services to the clients of the system.

In short, there will continue to be a number of pressing issues facing the employment security system which will require Congressional attention. Those solutions which are offered by the new employment and training legislation or which were included in the tax legislation will only provide interim relief to a portion of the problems described. A more comprehensive approach which brings the employment security system back to financial health and rebalances the federal state partnership is presently, and will continue to be, very desirable.

CONCLUSION

The purpose of this discussion has been to increase awareness about the nature of the financial calamity facing the employment security system in the 1980's. It is not an exhaustive discussion of all the financial issues which will need to be addressed, but it does bring forward the fact that every account in the Unemployment Trust Fund is precariously low in reserves, if not actually insolvent. The questions raised regarding the financing of both benefit and administrative costs are not answered by this paper, and they will not be easily answered by policy makers at the federal and state levels.

In addition to the fiscal issues troubling the employment security system, this discussion has touched on difficulties arising from several of the current administrative arrangements imposed upon the system. Neither can these be totally divorced from fiscal concerns, administrative reform should result in savings to the system. The application or influence of many of the allocation mechanisms, fiscal control systems, and the planning process, in fact, often becomes counter-productive to the smooth operation of the employment security system. In some cases, the latent effects of the allocation mechanisms have resulted in serious disincentives to implement cost saving measures in state agency operations. A thorough sorting out of appropriate functions for the state and federal partners should assist in removing some of the less desirable effects of current administrative controls. Additionally, such a sorting out will facilitate a rational determination of the funding necessary to administer the employment security system.

This paper has also raised questions regarding the equitable distribution of the responsibility to pay the costs of the system. While private sector employers pay the majority of the taxes which fund employment security costs, there are other consumers of the system's services who, perhaps, should also contribute to the operating costs of the system. Additionally, since federal administrative resources are pooled at the national level and divided among the states, serious questions have been identified regarding the equity of the current distribution methods. Employers in many states believe they are not getting a fair return in services for the tax dollars they provide to the national administrative pool. Furthermore, as services are shrinking due to the budget cuts, many employers believe if their services are being reduced, so should their FUTA tax rates. Legislation raising employer taxes, at the same time services are being cut back, only aggravates tensions between those who administer the system and the employers who pay its costs.

It seems clear that the time has come to undertake a comprehensive evaluation of the problems within the employment security system. Not only does it seem desirable to institute fiscal reforms, but it seems equally important to redress the convoluted administrative arrangements which characterize the federal-state partnership.

The price of failing to bring the employment security system back to a full functioning level is the certain erosion of basic securities Americans believe are theirs. Additionally, the stabilizing effect of unemployment insurance benefits for communities and the nation should not be jeopardized further by allowing deepening insolvency in benefit trust funds. Both the federal and state partners must openly strive to present the nature of the problems in the system in simple, intelligible ways, avoiding the temptation to bury issues and responsibilities under a blanket of technical complexity. And, both the state and federal partners must willingly accept that each must make some changes in the current ways of doing the business of the employment security system. The Congress must require that meaningful proposals be brought to them, and in a timely fashion, must assist in identifying and implementing solutions to the inadequacies and inequaties in the federal-state employment security system.

APPENDIX

Table A

Status of State Benefit Trust Funds
Comparison of February and Mid-Session Review (July) Estimates

Assets, Liabilities, Transactions and Balances	FY 1982		FY 1983		FY 1984		FY 1985	
	(billions of dollars)							
	Feb	July	Feb	July	Feb	July	Feb	July
Total Collections (income)	12.54	12.72	14.25	14.33	16.20	16.47	17.24	17.94
Regular Benefit Outlays	19.47	19.77	19.24	18.87	17.61	17.31	16.04	17.60
Extended Benefit Outlays (state share)	1.61	0.93	0.67	0.62	0.14	0.15	0.06	0.11
Total State Benefit Outlays	21.08	20.70	19.92*	19.49	17.75	17.46	16.10	17.71
Collection Loss Outlays (impact on trust funds)	-8.53	-7.98	-5.66	-5.16	-1.55	-0.99	+1.14	+0.23
New Borrowing	3.80	3.06	5.13	3.90	3.32	2.47	2.00	1.64
Accumulated Borrowing (includes loans made in prior years plus new loans)	9.48	8.34	13.98	11.53	16.13	12.77	15.99	12.80
Repayments of Loans	0.49	0.90	0.64	0.70	1.18	1.23	2.14	1.61
Interest Payable on Outstanding Loans	N/A	0.002	.625	0.500	1.056	0.836	1.175	0.895
Basic Economic Assumptions:								
Total Unemployment Rate	8.9%	9.05%	8.1%	8.6%	7.3%	7.7%	6.6%	7.3%
Number of Claimants (in millions)	11.2M	10.6M	10.4M	9.0M	9.7M	8.6M	9.0M	8.9M
Exhaustees (in millions)	3.7M	3.3M	4.4M	3.9M	3.7M	3.5M	3.2M	3.3M

Note: The Mid-Session Review estimates do not include the increased revenues which will result from increasing FUTA wage base and tax rate. Please refer to Table C.

*Rounding may cause some differences in sums.

NA = Not applicable

Source: UI Outlook, Department of Actuarial Services, Employment & Training Administration (ETA), Department of Labor (DOL), February and July, 1982.

APPENDIX

Table B
Summary Unemployment Trust Fund Accounts:
Comparison of February and Mid-Session Review (July) Estimates

(billions of dollars)

	FY 1982		FY 1983		FY 1984		FY 1985	
	Feb	July	Feb	July	Feb	July	Feb	July
State Benefit Trust Funds								
Collections (Income)	12.54	12.72	14.25	14.33	16.20	16.47	17.24	17.94
Total Outlays (Benefits)	21.07	19.77	19.92	18.87	17.75	17.13	16.10	17.60
New Loans	3.80	3.06	5.13	3.90	3.32	2.47	2.00	1.64
Outstanding Loans	9.49	8.34	13.98	11.53	16.13	12.77	15.99	12.80
FUA								
Income	0.49	0.90	0.64	0.70	1.18	1.23	2.14	1.61
Outlays	3.80	3.06	5.13	3.90	3.32	2.47	2.00	1.64
New General Revenue Advances	3.30	2.10	4.50	3.20	2.00	1.20	0.00	0.00
Outstanding General Revenue Debts	9.38	8.18	13.88	11.38	15.88	12.58	15.78	12.58
EUCA								
Income	1.14	1.16	1.20	1.19	1.26	1.25	1.32	1.31
Outlays	1.61	0.93	0.67	0.62	0.14	0.15	0.06	0.11
New General Revenue Advances	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Outstanding General Revenue Debts	7.53	6.83	7.03	6.23	5.83	5.03	4.53	3.83
ESAA								
Total FUTA Income	3.20	3.25	3.35	3.33	3.52	3.49	3.70	3.66
Available ESAA After Transfers	2.06	2.09	2.16	2.14	2.26	2.24	2.38	2.35
95% Limit (to SESAs)	2.11*	2.11*	2.05	2.05	2.15	2.13	2.26	2.24
Shortfall	(-.15)	(-.15)	(-.275)	(-.20)	(+.17)	(+.24)	(+.34)	(+.33)
Cash Flow Reserves	.35	(.45)	.16	(.30)	.23	(.60)	.57	(+.93)
Grand Total General Revenue								
New Advances (all accounts)	3.80	2.10	4.50	3.20	2.00	1.20	0.00	0.00
Outstanding Debts (all accounts)	16.91	15.01	20.91	17.61	21.71	17.61	20.31	16.41

Note: The Mid-Session Review estimates do not include the increased revenues which will result from increasing FUTA wage base and tax rate. Please refer to Table C.

*$150M was added to the 95 percent limitation due to high unemployment rates.

Source: UI Outlook, Department of Actuarial Services, ETA/DOL, February and July, 1982.

APPENDIX

Table C
Estimates of FUTA Wage Base and Tax Rate Increase on Unemployment Trust Fund Accounts

ESTIMATES	1983	1984	1985
	(in billions of dollars)		
Total FUTA Revenue Prior to FUTA base and rate increases[1]	3.250	3.330	3.490
Revenue added by increasing the wage base to $7,000[1]	.260	.533	.610
Revenue added by increasing rate to 0.8%[1]	.376	.558	.585
Revised FUTA Revenue[2]	3.886	4.421	4.685
Transferred to EUCA (40%)[2]	1.554	1.768	1.874
Available for state and federal administration (60%)[2]	2.332	2.653	2.811
95% limitation funds for SESA operations[2]	2.215	2.520	2.670
5% available for federal administration[2]	0.117	0.133	0.141
State Benefit Trust Fund Collections Prior to FUTA increases[1]	12.540	14.330	16.470
State revenue added by increasing the wage base to $7,000[1]	0.750	1.266	1.257
State revenue added when FUTA standard rate is increased to 6.0, requiring state rates to increase[1]	—	—	.511
Revised Total State Benefit Trust Fund Collections[2]	13.290	15.596	17.727
Total Outlays[2] (regular plus the state share of EB)	18.870	17.130	17.600
Difference between collections and outlays[2,3]	-5.550	-1.534	0.127

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[1] The source of these estimates is the UI Outlook, Mid-Session Review, Department of Actuarial Services, ETA/DOL, July 1982.

[2] These estimates were computed by the author.

[3] The shortfall in collections does not imply that these amounts will be borrowed since some states still have adequate reserves to cover a shortfall in collections.

APPENDIX

Table D
Comparison of February and July Estimates for the Employment Security Administration Account

	1982			1983		
	Feb.	July	Difference	Feb.	July	Difference
Total FUTA Revenue	3.200	3.250	+0.050	3.350	3.330	-0.020
Net in ESAA after transfers, includes interest	2.117	2.146	+0.029	2.216	2.184	-0.032
95 percent limitation	2.107	2.107	0	2.048	2.048	0
Appropriation for SESA Administration	2.283[1]	2.216[1]	-0.067	2.323	2.252	-0.077
- UI	(1.541)	(1.474)	(-0.067)[2]	(1.605)	(1.533)[2]	0
- ES	(0.742)	(0.742)	(0)	(0.719)	(0.719)	0
Federal Administration (outlays)	0.064	0.064	0	0.083	0.083	0
Balance (end of year)	0.350	0.447	+0.097	0.160	0.296	0.136

Note: These estimates do not include the increased revenues attributable to FUTA wage base and tax rate increases.

[1] Outlays, budget authority equals $2.26 billion.

[2] UI Workload is estimated to be significantly lower in the Mid-Session Review protections.

Mr. FISHER. I will not try to highlight that. Secretary Diener will get into that, and particularly to bring out its main points.

Let me conclude in this way: that you have this immediate problem to renew, cope with, deal with the supplemental compensation program. That is going to force a few States right to the wall very quickly unless something is done.

Secretary Diener will outline some ideas that our State and our Governor Robb have on the matter. The only source of funds now used for all of these accounts and funds to keep the system going one way or the other is the general funds in the Treasury of the United States.

For the longer run which we are dealing with mainly, let me suggest in general that we need a clearer separation of the States' responsibilities for the basic part of the system, 26 weeks if you like; a clearer separation of the States' financial and administrative responsibilities. We need a clearer definition of the Federal responsibility for a transition over into a system of extended or supplemental or longrun benefits which arise only when the whole economy is in trouble, in deep trouble. And there I think is where the general funds of the Treasury ought to be continued to be brought into play.

But there needs to be a clearer definition, in my view, of these two roles; and we need to work toward clearly making the States responsible for the basic part of it and rather fully responsible along the line of Congressman Moore's questioning a little bit ago, and equally clearly we need to state the Federal responsibility when the recession is so prolonged, so deep that it goes beyond the capacity of States to cope.

This would recognize that such a recession is a national phenomenon and in a way only recognize what is going on right now; that is, the general funds of the Treasury one way or the other are providing the funds to keep these more extended programs going.

Those are some general remarks. I would like to turn this over to Secretary Diener to develop our position in a little more detail.

[The prepared statement follows:]

STATEMENT OF JOSEPH L. FISHER, SECRETARY OF HUMAN RESOURCES, AND BETTY J. DIENER, SECRETARY OF COMMERCE AND RESOURCES, COMMONWEALTH OF VIRGINIA

Mr. Chairman, members of the Subcommittee, my name is Joe Fisher, and I am the Secretary of Human Resources in the Commonwealth of Virginia. With me today is Dr. Betty Diener, Secretary of Commerce and Resources in Virginia. It is a pleasure to appear before you today on behalf of our Governor, Charles Robb. We appreciate the opportunity to share our views on several critical problems facing the unemployment insurance system in our nation. We both applaud this Subcommittee for convening early hearings to discuss the status of the unemployment insurance system.

Since this hearing was convened in part to address the extension of the Federal Supplemental Compensation (FSC) program, which has provided additional weeks of unemployment compensation to the unemployed during this long and treacherous recession, I would like to begin with a problem involving this program. Members of the 97th Congress, who worked so diligently to develop the Federal Supplemental Compensation program, wisely provided that the source of revenue to finance both the benefits and the administrative costs of the Federal Supplemental Compensation program would be federal general revenue. By increasing the amount of unemployment compensation benefits which are subject to federal income tax, this Subcommittee ensured that adequate federal general revenues would be available to cover the cost of the Federal Supplemental Compensation program. Federal general revenue financing was intended, as I understand it, to guarantee that the operational costs of the FSC program would not further diminish the slim resources available to fund the basic employment programs administered by the state employment security agencies.

When the appropriation request for administrative funds to operate the FSC program was submitted, however, the request was not for federal general revenue. Rather, the Administration requested Federal Unemployment Tax (FUTA) trust funds for Federal Supplemental Compensation administrative costs. And, in fact, the FSC program currently is being operated utilizing FUTA trust funds rather than federal general revenue, as I believe this Subcommittee intended.

It is probably not surprising to this Subcommittee, then, to find that the 1984 Presidential budget request includes a request for general revenue advances to supplement the Employment Security Administration Account which funds the costs of operating the employment security system. The need for this advance was in part brought about by the use of FUTA funds for operating the Federal Supplemental Compensation program. We understand, of course, that other factors have contributed to Employment Security Administration Account insolvency, but we raise this issue to point out that even Congressional intent can be circumscribed by the complexity of financing arrangements in this system.

It is alarming to realize that insolvency has now overtaken the Extended Unemployment Compensation Account, the Federal Unemployment Account, and about half the state benefit trust funds. Now, within this session of Congress, we will add to this list the Employment Security Administration Account. We have come to a moment of crisis in the unemployment insurance system, one brought about by the massive and prolonged unemployment of this recession, by the complexity of the funding mechanisms, and by an increasing imbalance in the federal-state partnership which operates and administers this important system.

Virginia, in conjunction with the states of Idaho, Oregon and Texas, participated in the development of a document which describes the problems referred to in this testimony. Mr. Chairman, I would like to submit this document, entitled the "Status of the Employment Security System in 1982," for the hearing record and to the members of the Subcommittee. Let me high-light some of the major findings which our consultants, Chambers Associates Incorporated, presented in this report:

STATE BENEFIT TRUST FUNDS

The income to state benefit trust funds, composed of tax contributions paid by employers in each state, equalled only approximately 60 percent of the outlays from those trust funds during 1982. These outlays, as you know, provide the regular benefit payments to qualified unemployment insurance claimants across the country, and also fund fifty percent of the extended benefits. The 40 percent of outlays which could not be funded by the income to the system, were paid for from reserves in individual state benefits trust funds, or when there were no longer any reserves, by loans to the states from the Federal Unemployment Account.

Last year, 23 states required loans from the Federal Unemployment Account, amounting to $10.6 billion. The Department of Labor projects that more than 30 states will be in a borrowing status prior to the end of calendar year 1983. For the first time, Virginia has had to resort to borrowing, not much to be sure, but even a little is traumatic for my state.

FEDERAL UNEMPLOYMENT ACCOUNT

The Federal Unemployment Account was intended to provide loans when state trust fund reserves have been depleted. As it was originally conceived, the Federal Unemployment Account would be financed by setting aside small amounts of FUTA resources each year. This account has been insolvent since the 1974-75 recession. When the Federal Unemployment Account is insolvent, it receives advances from federal general revenue.

During the last several years, loans to states have been underwritten almost entirely by federal general revenue advances to the Federal Unemployment Account. At present, approximately 98 percent of the funds which have been loaned to states are federal general revenue.

EXTENDED UNEMPLOYMENT COMPENSATION ACCOUNT

The Extended Unemployment Compensation Account finances the federal share of extended benefits and also financed part of the costs of the now expired Federal Supplemental Benefits program, a previous version of today's Federal Supplemental Compensation program. This account also is insolvent and has been in this status since the 1974-75 recession. The Extended Unemployment Compensation Account has also required federal general revenue advances over the last several years, and owes the Treasury over $7 billion.

EMPLOYMENT SECURITY ADMINISTRATION ACCOUNT

As I mentioned earlier, the Employment Security Administration Account is the account which provides for operation of the state employment security agencies, the agencies which administer both the unemployment insurance and employment service system throughout our country. Within this fiscal year, the Employment Security Administration Account will also become insolvent and will require an advance from federal general revenue to ensure the continuous operation of state employment security agencies. The Administration has requested that $500 million in budget authority be made available from general funds of the Treasury.

THE UNEMPLOYMENT TRUST FUND

The accounts I have described are all housed in the Federal Unemployment Trust Fund. Let me summarize the overall insolvency in this trust fund. At the end of fiscal year 1983, the estimated total federal general revenue advances to the various accounts in the Unemployment Trust Fund is projected to be a staggering $24.4 billion. And, by the end of fiscal year 1984, the total advances to the Unemployment Trust Fund are estimated at an overwhelming $30.2 billion.

Even the new taxing provisions, enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), will not significantly improve the financial status of the accounts in the Unemployment Trust Fund until after 1985. Record unemployment levels and the long duration of this recession have made it clear that the financing mechanisms in the current system are simply not adequate to match the demand for benefit and administrative outlays which occur during severe recessions. It is facts like these that have compelled Virginia and the states in our group to join together to study the problems in the employment security system. We are convinced, beyond the shadow of a doubt, that we must find solutions to the problems I have highlighted here.

Mr. Chairman, members of the Subcommittee, my name is Betty Diener, and I am the Secretary of Commerce and Resources in the Commonwealth of Virginia. I'm now involved in the issue before your since Virginia's Employment Commission has just been transferred to the Commerce and Resources area within our state government from Dr. Fisher's area.

We in Virginia initially got involved in the study of the Federal Unemployment Tax Act because of our own dwindling state trust fund and our shrinking administrative allocation. Now, the study, which Dr. Fisher has referred to, "The Status of the Employment Security System in 1982," has, quite frankly, revealed serious problems for the national program which go beyond our own state's needs or problems. In fact, in releasing the report on Monday of this week, Governor Robb indicated that, in his opinion, the financial crisis now facing the Employment Security System is an enormous domestic problem, second only in magnitude to the similar fiscal problem facing the Social Security System. He therefore committed Virginia to working with all interested parties in order to identify some solutions that would bring about fiscal reform, together with, hopefully, less expensive administration of the Employment Security System.

To that end, Mr. Chairman, I would like to provide this Subcommittee with a second document, entitled "Problems and Solutions: Policy Directions for the Employment Security System in 1982." This report is a product of the efforts of Chambers Associates who have begun developing solutions to the problems that were identified in the earlier report.

We believe this second document contains a wide range of possible solutions you might consider as you attempt to restore the Employment Security System to fiscal solvency.

For example, Mr. Chairman, the earlier report identifies at least seven major problem areas facing the system. These include:

1. High levels of state and federal fund insolvency due to an historic underfunding of the total system by both state and federal sources;
2. Loan repayment provisions for existing borrowers that are structured in such a way that states are unable to catch up on their obligations;

3. Federal adminstrative and management systems which discourage efficiencies at the state level through the inclusion of disincentives for automation, redundant reporting systems, and inflexible budgeting and allocation processes;

4. Inequities in levels of funding between the private employers who pay FUTA taxes and the non-profit employers who do not pay FUTA taxes you yet have the full benefits of the System's insurance and services;

5. The federal Department of Labor's budgeting treatment of all states as being similar, thus preventing states which have different characteristics and budget needs from reflecting those differences in budget process;

6. The inclusion in the FUTA system of unfunded enforcement programs that might more logically full elsewhere, such as housing inspections for migrant and seasonal farmworkers, certification of alien workers, and rural loan certifications; and

7. The possible annual loss of over $200 million as a result of federal rather than state collection of all FUTA taxes.

Now, Mr. Chairman, in our Problems and Solutions, paper, we are putting forward for your Subcommittee's consideration a number of possible solutions to the seven problem areas I've just identified.

First, we suggest ways of improving the program's solvency. We recommend, for example, that federal standards should be established that would mandate the level of funds that would have to be available in both the federal and state funds to cover the normal demands of the system.

At the same time we recognize that states continuing to suffer high unemployment of long duration would still need to find other ways of coping with their unusual and virtually catastrophic problems. The only recourse for these few states remains the general funds of the U.S. Treasury since such massive, prolonged unemployment is a matter of national concern.

In regard to facilitating repayment provisions, it is clear that past indebtedness has become so large in some states that they are condemned to continuously play "catch up." We suggest that the length of repayment time be extended, and that the past debt be frozen with no new interest charged on it. We feel very strongly that no debts should be forgiven; rather we support making repayment of the principal more possible during periods of extreme economic difficulty.

States must be encouraged not only to repay past debts but, once the recession is over, to also rebuild benefit trust fund reserves, thus eliminating the need for borrowing in the future.

We recommend therefore placing the state benefit trust fund under the control of the states, with strict federal requirements for solvency. This would certainly place the responsibility for both benefit and tax decisions with the states, and would eliminate the existing confusion about whether the states actually have the responsibility for taking appropriate actions when they need to adjust tax structures and benefit rates. It would have the further advantage of enabling states, which already collect and disburse the funds, to receive the returns from investing the money. The federal government, of course, should establish standards of fiduciary responsibility.

Also included in our Problems and Solutions paper are suggestions for: (1) simplifying federal budgeting and reporting systems to reduce cost and duplication; (2) including non-profit employers in the funding of the FUTA System; and (3) eliminating inappropriate enforcement programs from the FUTA System.

For most of its history, the employment security system has been structured to generate adequate financing, meeting all of its obligations with only minor corrective actions. Since the 1970's, however, there has been a disturbing trend toward insolvency both at the state and federal level. We are convinced that both Virginia and the nation have arrived at a watershed period in this system's history. By combining all of our efforts, we are certain that solutions to the present crisis can be found and that legislation can be developed which will reestablish sound financial footing for the employment security system. We have committed ourselves to contributing to the development of solutions, and we thus offer our assistance to the Subcommittee.

Ms. **Diener**. Mr. Chairman, my name is Betty Diener, and I am the secretary of commerce and resources for Virginia. I am involved in this issue now, as Dr. Fisher just mentioned, because the Virginia Employment Commission will be coming under my secretariat for the first time.

In Virginia we initially got involved in this issue because of our own dwindling State trust fund and funding problems. As we did it, however, and as we developed this report that Dr. Fisher mentioned, we found some fairly serious problems for the national program which we feel go beyond our own State's problems and which we wanted to share with you.

In fact, when Governor Robb released the report earlier this week, he indicated that in his opinion the financial crisis now facing the employment security system is second only in magnitude to the similar fiscal problems facing social security. So he therefore committed Virginia and asked us to come up and express that commitment to working with all of the interested parties in coming up with some solutions to the problems of the system.

To that end, I would like to submit with your permission, Mr. Chairman, a second document entitled "Problems and Solutions: Policy Direction for the Employment Security System in 1982."

Chairman FORD. Without objection, that will be made a part of the record.

[The information follows:]

PROBLEMS AND SOLUTIONS:

Policy Directions for the Employment Security System in 1982

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Preface

The paper entitled "Status of the Employment Security System in 1982" raises a range of policy issues which directly affect the financial and administrative stability of the employment security system in the United States. This paper extracts a number of the problems set-out in the earlier paper and begins to explore some of the available solutions. Through debate of both the problems and the solutions offered here, a consensus regarding which steps to take may begin to emerge. As the current recession continues to afflict millions of American workers with the damaging effects of unemployment, it becomes clear that finding the right course to regenerate this important institution is a significant challenge.

1. FINANCING ISSUES:

1.1 Benefit Financing

In the years since 1970, a growing inadequacy has developed in the benefit financing mechanisms which generate the revenues to pay unemployment compensation benefits to eligible claimants. There are a variety of reasons for this basic inadequacy, some of which are economic and some of which are actuarial in nature. The solutions required to solve the benefit financing problems will differ depending on the reason for the inadequacy. For example, the enactment of a permanent federal-state extended benefit program in the early 1970's changed the fundamental actuarial relationships between state taxing structures and outlay of benefits from the state benefit trust funds by increasing the potential duration of a UI claim to thirty-nine weeks. Even though the costs of extended benefits are shared equally between the federal and state governments, the requirement for additional benefit outlays from the state benefit trust funds was not matched in many cases by the capacity of state taxing structures to finance these outlays.

Almost before states had the opportunity to respond to the changes required by implementation of the extended benefit program, the 1974-75 recession began, requiring unprecedented draw downs on state benefit trust funds. That recession increased national concern regarding unemployment levels and motivated Congress to enact a second extension, the Federal Supplemental Benefit (FSB) program, which lengthened the potential duration of a claim to 65 weeks at one point during the program. Research indicates that as longer duration claim periods are made available, there is a greater probability that claimants will continue to seek benefits while awaiting recall or seeking other employment. Therefore, even though the FSB program was financed by federal funds, the availability of these benefits increased the likelihood that claimants would exhaust both their regular and extended benefit entitlements, each of which required financing from the state benefit trust funds. Therefore, the FSB extension complicated the imbalance between state taxing mechanisms and actual benefit outlays from state benefit trust funds. It is important to note that neither the extended benefits program nor the FSB program directly addressed the capacity of state benefit financing structures to fund the costs of these programs. Minor adjustments were made to the federal taxing structure to help finance the federal share of benefit outlays required for both extended benefits and FSB. However, the adjustments were insufficient to meet the federal costs, resulting in the need for advances from general federal revenue for federal benefit costs. Thus, the continued high unemployment of 1974-75 brought about modifications to the availability of UI benefits. Furthermore, the significant actuarial consequences of these changes were not well understood nor were they accommodated by adequate adjustments to the state or federal tax mechanisms.

Experience during the 1974-75 recession, as well as the more recent record unemployment in the early 1980's, leaves no doubt that there are levels of unemployment which are beyond the capacity of both state and federal unemployment insurance taxing structures to finance. Analysis of these two recessions indicates that states with heavy concentrations of auto industry employment have experienced extraordinary levels of unemployment during the last ten years. Not surprisingly, many of these states have also required substantial advances to their benefit trust funds in order to continue providing UI compensation to claimants. During the early 1970's, states with shoe and textile industries also suffered high rates of unemployment, and now, in the early 1980's, states with concentrations of mining and lumber industry employment are suffering the same kinds of prolonged, high rates of unemployment. In states which have required advances to continue the payment of benefits, some have been overwhelmed by a rapid increase in the number of claimants, some by the long duration of unemployment, and others by a combination of these factors. Once insolvency has occured in a state, the states must not only determine how to keep up with the current demand for benefits, but must also find ways to repay their indebtedness. During a recession, it is often untenable to increase employer taxes or reduce benefit availability, meaning most states must await the end of a recession prior to taking major actions to modify their UI program. This has resulted in an overwhelming accumulated debt in several cases, as well as the urgent need to restore depleted trust fund reserves. Some states in this position have passively waited for the federal tax mechanisms to automatically begin the long process of recouping the state's debt, while relying on existing tax structures to rebuild the state trust fund. In the face of two major recessions in 6 years, this strategy has caused a few states extreme fiscal difficulties due to the size of the indebtedness in their trust funds.

Because state benefit trust funds are housed in the Unemployment Trust Fund in the U.S. Treasury, these funds have been included in the federal unified budget. Therefore, each year the revenues and outlays from the state benefit trust funds become a part of the revenue and outlays for the federal budget. This results in concerns on the part of Congress as to how to reduce outlays in the UI program, even though the laws which authorize the collection of these revenues and payment of benefits are state laws. Each time Congress enacts legislation modifying the entitlement to UI benefits, fifty-three states and jurisdictions must enact conforming legislation which is consistent with the new federal requirements. This pattern has made many states feel less and less responsible for making what are often hard political decisions. When recessions result in increased benefit outlays as occurred during the last ten years, and large numbers of states require loans to continue paying benefits, there is increased motivation for the Congress to control outlays through federal law changing the state UI programs. The Omnibus Reconciliation Act of 1981 (P.L. 97-35) is an example of Congressional action to decrease benefit availability.

Given this background, the following will outline a series of basic issues in the benefit financing area and suggest a number of potential solutions:

1.1.1 Problem

Inclusion of revenues and outlays from the state benefit trust funds in the unified budget:

. Makes benefit entitlement, authorized by state laws, subject to Administration and Congressional modifications to reduce "federal" outlays.

. Confuses the responsibility for taking action to adjust tax structures to finance benefit costs, particularly where the state taxable wage base is concerned.

. Increases Administration intrusion into the operation of the state authorized unemployment insurance program on many levels.

1.1.1 Solution

State benefit trust funds should not be included in the unified budget for revenue and outlay purposes, and the funds should be reaffirmed as state revenues held in trust at the federal level. Federal outlay costs associated with the Extended Benefit program, loans to states, and for the present, administration of the state employment security agencies should continue to be part of the federal unified budget.

1.1.2 Problem

Many state benefit financing structures are not adequate to finance the predictable costs of benefits in the state. This inadequacy can be the result of:

. Economic declines which are regional or national, and beyond a state's capacity to anticipate or control, or

1.1.2 Solution

The causes of insolvency should be identified and treated separately. Insolvency which is due to an imbalance between a tax structure and the availability of benefit should be corrected by rebalancing these two components. Insolvency which is due to

- An imbalance between the state's tax and benefit structures, or
- An interaction of these economic and financing factors.

national economic trends, particularly those involving the declines of certain industries, should be addressed by spreading the responsibility to finance benefits to a larger group of tax payers. This could include utilizing a greater proportion of FUTA funds, or even require supplementation through federal general revenues in times of catastrophic unemployment.

1.1.3 Problem

During periods of severe economic decline, such as the recessions of 1974-75 and 1980-82, the reserves in most state benefit trust funds diminish as millions of claims are paid. As the length of a recession increases, total depletion of reserves can occur and advances are then required. Prolonged, high unemployment is beyond the capacity of the current system, taken as a whole, to finance.

1.1.3 Solution

Recent extraordinary unemployment has devastated the trust funds in several states, leaving overwhelming indebtedness. States which have become seriously indebted could be provided with a longer repayment period which is designed to permit the state to move immediately toward fiscal solvency for future benefit costs. Over a reasonable period of time, all states should be required, through the conformity mechanism, to become solvent.

1.1.4 Problem

The federal tax rate and wage base have not been sufficient:

- to finance the costs of the federal share of extended benefits during periods of high unemployment when the demand for extended benefits is the greatest,

or

- to build up reserves in the Federal Unemployment Account from which loans to states are provided, or
- to finance the costs of state administration.

1.1.4 Solution

The federal wage base and tax rate should be adjusted to adequately finance those benefit and administrative costs which are a federal responsibility. Solvent accounts should be required at the federal level as well as the state level.

1.1.5 Problem

The Extended Unemployment Compensation Account (EUCA) from which federal share of extended benefits is paid has been indebted to federal general revenue since the 1974-75 recession. Recent tax increases were required to finance the federal share of extended benefits and speed up the repayment of federal general revenue debts, in spite of the fact that severe restrictions were enacted in 1981, limiting the availability of extended benefits.

1.1.5 Solution

A thorough review of the causes of EUCA indebtedness should be undertaken with a view toward identifying portions of this indebtedness which were due to catastrophic unemployment during the 1974-75 and 1980-82 recessions. Serious consideration should be given to offsetting part of this portion of EUCA indebtedness with federal general revenue. That portion of the indebtedness which was due to an imbalance between the tax and benefit structure should be reviewed and, if necessary, further correction made to rebalance the financing and benefit structures.

1.1.6 Problem

State borrowing is being financed by federal general revenue which is passed through the Federal Unemployment Account (FUA) before being advanced to state benefit trust funds. There have not been sufficient FUTA reserves available since the mid-1970's to permit FUTA funded loans to the states. States which require advances are not required to adjust their taxing mechanisms or the availability of benefits. If the state benefit trust fund is not replenished in two years to allow a lump sum repayment, the state's employers begin to lose federal tax credits and thus, pay higher federal taxes. Theoretically, a state need take no action to improve the adequacy of its benefit financing structure and may passively allow lost federal tax credits to be levied as the method for repayment of the state's debt.

1.1.6 Solution

The increasing occurance of insolvency among states during recessions indicates there are serious flaws in the current system. Solvency must become a top priority and should include immediate steps to permit states to become solvent in terms of predictable future outlays. By separating past indebtedness and, as a bank would, spreading the repayments over a significantly longer period of time, many states would be able to replenish their trust funds without requiring astronomical tax increases or detrimental benefit restrictions. Each debtor state should be treated individually, and each should arrive at a rational repayment schedule with the Secretary of Labor.

1.2 Administrative Financing

While employers in each state pay tax contributions to the state for purposes of accumulating benefit trust fund reserves, they pay a federal tax, called FUTA, to the IRS to provide for administrative funds to operate the employment security system and the federal costs of extended benefit program. The maximum paid by any employer for each employee is $42 until January 1, 1983, when the maximum costs will increase to $56 per employee. FUTA funds are pooled nationally and the decisions regarding their allocation to the states are made primarily by the Secretary of Labor. The Administration prepares complex budget estimates for the operation of the employment security system based on historical costs, several budget justification models, and input from the state employment security agencies. This wealth of information is condensed by the Administration and subjected to politically motivated decision making prior to sending aggregated estimates of national program costs to the Congress. Upon approval of appropriations, the Administration then determines how to allocate the available resources among the states.

Since the taxes have remained fixed since 1978, the total amounts of FUTA revenue due each year have not changed dramatically since 1978, hovering around $3 billion each year. The costs of operating the employment security system, which include personnel and overhead across fifty-three states and jurisdictions, have increased along with all costs of doing business during this same period. During the last several years it has been quite apparent that there would be a shortfall in administrative revenues available to finance the costs of operating the basic employment security system in our nation. This impending shortfall was repeatedly brought to the attention of the two most recent Administrations. Drastic reductions in the Employment Service program and major reductions in the UI program staff were required in the fiscal year 1982 to avoid the need for general revenue advances (loans) to the administrative account (ESAA). The 1983 budget, still being finalized, may bring about further reductions and lead to continued serious erosion of basic employment security services which are desperately needed by the unemployed during a recession. If the additional reductions requested by the Administration are not enacted by Congress, leaving employment security funding at the 1982 level, it is almost certain that loans from general revenue will be required to partially finance the costs of administering this system in 1983. The tax increases which will begin to take effect in 1983, are not expected to be sufficient for administrative funding required to process the workload during this deep and lengthy recession. Should unemployment remain high into 1983, there will continue to be serious shortfalls in administrative resources. State employment security agencies are the first line of defense in assisting unemployed persons in this nation. Those who administer these programs find it highly illogical to reduce services to the jobless during a severe recession.

Several specific problems have contributed to the crisis in administrative funding. These are outlined below and potential solutions to these problems are suggested:

1.2.1 Problem

The federal wage base and tax rate have remained artificially low. Even with the 1982 amendments (P.L. 97-248), the taxable base will remain far below that recommended for solvent financing of the federal costs of extended benefits, federal loans, and the administration of the state and federal employment security programs. While the Social Security wage base is now $32,000, the FUTA wage base will be $7,000 in 1983. Such a low wage base limits the capacity of the system to generate revenues quickly through small adjustments to the Federal tax rate.

1.2.1 Solution

The federal wage base should be increased to at least 50 percent of the national average annual wage in covered employment. The tax rate may require adjustments to assure the federal accounts are adequately financed to meet future predictable outlays.

1.2.2 Problem

The budget formation mechanisms for and presentations of the employment security budgets are unnecessarily complex, cumbersome and often mislead the Congress regarding the status of the system's operations. A recent example involved the Administration's request for a second wave of cuts in the FY 1982 budget which was granted after assurances that the

1.2.2 Solution

Congress should call oversight hearings which review the role of the federal partner in developing budgets for the state employment security agencies. This review should focus on how budgets are formulated, and the appropriate uses of FUTA revenues set aside for the administration of these programs. Additionally the hearings should review the impact of the cuts would not impair unemployment insurance services. Due to the unavoidable intertwining of ES and UI funding in supporting local offices, the planned ES cut would have resulted in the closure of an estimated 1000 local offices serving both UI claimants and other jobless persons at the very time unemployment rates began to soar. Congressional members rejected the second wave of budget cuts in face of the impending disruption of services. The complexity of the budgetary system for employment security is not established in law or regulation, it is manufactured out of discretionary administrative powers granted the Secretary of Labor.

newly enacted Job Training Partnership Act on employment security funding, with a view toward assuring the continued smooth functioning of both the UI and ES programs. The review also should examine the factors Congress deems appropriate in both developing, justifying and presenting employment security budgets for consideration by the Budget and Appropriate Committees.

1.2.3 Problem

Aside from the postal service, there are very few other nationwide non-military delivery systems available to the federal government which can implement policies rapidly. Because the employment security system serves the entire nation, over the last twenty years a plethora of programs have been imposed for

1.2.3 Solution

The Job Training Partnership Act will require a complete review of all programs operated through, or with the assistance of, the employment security system, identifying those which are not expressly provided for by the appropriate authorizing statutes. Estimates of the costs of operating these programs, administrative purposes upon the employment security system. Some of these programs reflect different policies and create serious conflicts with basic employment security missions. Programs which police employers are not consistent with serving employers. Programs which work to serve the special needs of a few have diverted resources which could have served many others more effectively. Generally speaking the imposition of new programs on the employment security system has not been accompanied by sufficient resources to offset the administrative costs of operating the programs. Nonetheless, year after year, Administration after Administration, has required the employment security system to take on additional responsibilities. Preparation of certifications for rural loans, certification of TJTC eligibility, certifications that alien workers will not displace American workers, job search and counseling services for Food Stamp recipients, specialized placement and job development services for disabled veterans, and job counseling and assistance programs for welfare recipients are all perfectly justifiable

the staffing required and the problems which may have resulted by operating them through the employment security system should be developed.

The Job Training Partnership Act provides the long needed opportunity for a thorough sorting out of these added employment security responsibilities. Such a review will undoubtedly yield a list of programs which should not be operated through this system and some which should. Recommendations for the removal of inappropriate programs from the employment security system should be advanced. In cases where programs should be operated by the employment security system, a responsible method for financing their costs should be proposed in the 1984 federal budget request.

programs, but their administration by the employment security system without adequate resources may not be in the best interest of the claimants and other jobless persons who are fully able and prepared to return to work.

1.2.4 Problem

Federal budgeting practices continue to underfinance the justified costs of operating the unemployment insurance program. The results of this underfinancing include increased likelihood of abuse and error in the payment of UI benefits, inability to assist UI claimants to find work, elimination of employer tax audits, backlogs in appeals, and a variety of other administrative problems. Experience reveals that understaffing UI operations during high workload periods (i.e., recessions) results in more errors in processing claims. Not all these errors have monetary consequences but rectifying them may take months or years.

1.2.4 Solution

The arbitrary reduction of state allocations undermines the incentive to operate the most cost effective UI program possible. The allocation system should reward automation efforts and encourage the streamlining of procedures by increasing state administrator flexibility. The rigidity of the present line item budget and accounting systems should be eliminated across all UI functions. The reduction in UI staffing in fiscal year 1983 requested by the Administration should not be approved.

1.2.5 Problem

Many of the budgeting and accounting systems developed by the Secretary of Labor to justify, allocate or account for grants-to-states funds are costly mechanisms in and of themselves. Such systems as the UI Cost Model, the Employment Security Automated Reporting System and the Cost Accounting and Time Distribution system, cost millions of dollars to maintain and operate. Their use is mandated by the Secretary of Labor for all state employment security agencies, even where a state agency may be able to provide the required informaton in a more cost effective manner or where different systems could reduce the costs of operating a state's programs. Furthermore, these systems so intrude on the daily operation of state programs that many regard the employment security system as federally operated.

1.2.5 Solution

Serious consideration should be given to immediately moving to a more flexible reporting system which only defines the data required, not the method by which it is generated. Those states which are already automated will quickly be able to adopt report generation techniques which are a natural by-product of their computer system design, eliminating the cost of operating federally mandated reporting systems. In states which are not prepared to accept this responsibility, efforts should be made to develop this capacity.

The federal partner should concentrate on clear definitions of the data they require, and work with the states to ensure uniform definitions which will generate comparable data nationally.

1.2.6 Problem

Recent Administrations, under pressure from OMB, have been poor advocates for the state employment

1.2.6 Solution

The Congressional oversight process should focus on the relationship between the federal and security agencies, refusing to support or opposing efforts which would improve administrative funding for the operation of the programs administered through this system. Worse yet, recent Administrations have agreed to or proposed new tasks for the employment security system without requesting funding to provide for the administration of these tasks. The absorption of costs associated with operation of added programs have left the state agencies with insufficient resources to conduct the basic missions assigned them in a professional and proper manner.

state governments. Congress can provide the only impartial forum for both the federal and the state partners. Rational decisions regarding appropriate mission, use of FUTA funds, and improved management and operation of the system are needed to restore balance to the employment security system.

2. ADMINISTRATION AND MANAGEMENT OF THE EMPLOYMENT SECURITY SYSTEM

From a state perspective, among the most perplexing and vexing problems facing the employment security system is the state of the federal-state partnership which operates the system. Most agree the partnership is characterized by an over-bearing and authoritarian role for the federal partner and a defensive and reactive role for the state partner. The federal partner defines many of the details of daily operations in the state agencies, holding the threat of non-compliance and financial penalties over the state administrators' heads, leaving the states little flexibility in their efforts to best serve the population entitled to receive the system's services and insurance. Controls are exerted by the federal partner through the planning system, the cost accounting system, the allocation of resources, the budgetary adjustment system, and the reporting system. The majority of administrative controls on state employment security agencies are imposed at the discretion of the Secretary of Labor and are not founded in statutes or regulations.

Over the last ten years in particular, there has been an increasing imbalance in the partnership roles, leaving many states totally dissatisfied with the current management and administration of the system. This dissatisfaction is experienced not only by state administrators operating the system, but by Governors, state legislators and other state operated entities which need to work with the employment security system to achieve the state's employment and training goals. Further, many state administrators find it difficult, if not impossible, to reconcile the rigidity of the federal partner with the demands for innovation and flexibility from their Governor, citizens, employers and jobless persons. An even less palatable consequence is the development of strategies to "beat the Feds at their own game."

Some specific problems and suggested solutions follow:

2.1 Problem

The planning system requires the states to develop thousands of pages of documents for federal managers which ultimately are little used to establish the budget for the system or to allocate resources once they are appropriated. States must readjust their plans several times during the year as the funding received differs from their budget planning documents. States must then live up to the federal administrative requirements regardless of the adequacy of the administrative resources they receive. Should a state fail to perform in accordance with its plan (or revised plan) it is faced with the possibility of serious administrative and financial sanctions if corrective actions are not immediately taken. This system of controls is highly disruptive to the smooth operation and flexibility required to meet the needs of a state's labor force.

2.1 Solution

The rigidity of the current PBP planning process has become intolerable during a period when staff are being reduced, offices are being closed and over 11 million workers are unemployed. Immediate steps to increase state administrator flexibility must be instituted. Eventually, states should be given the full responsibility for developing plans, executing them, changing them and establishing, to the satisfaction of the state legislature or the Governor, that the state has operated appropriately throughout a budget period. The emphasis should be on coordination between a state's own programs. Included in increased flexibility should be some reasonable ability for state administrators to deviate from original plans when circumstances in the state warrant such deviation. Circumstances for findings of non-compliance should be modified to allow increased state flexibility.

2.2 Problem

The federally required cost accounting and time distribution system is the device used to monitor state spending to ensure that grant funds are properly expended for the authorized purposes. However, in spite of the fact that Congress appropriates a sum of money, called grants-to-states for unemployment and employment services, the states are forbidden from utilizing ES funds for UI functions or vice versa. Through the cost accounting system, all funds spent on a particular program are controlled, and offsetting over-expenditures in one program with a surplus in another, is prohibited. Any unexpended funds are picked up from the state each quarter, and subsequently may be reallocated or returned to the Treasury. States are rarely able to retain surpluses from quarter to quarter and must absorb over-expenditures when they occur. This system removes all incentives to save funds in a quarter and prohibits any real planning beyond a quarter. The hands of the state administrator are tied by the cost accounting system,

2.2 Solution

The current practices of artifically separating ES and UI operating budgets, and of picking up unexpended funds each quarter should be abolished. State administrators should receive bottom-line authority in most cases, except that the UI contingency financing mechanism should continue to be utilized for the present. When a state improves its efficiency and generates cost savings in a program area, a portion (50 percent) of the savings (both immediate and on-going) should remain available to the state for purposes of improving efficiency in other program areas. Negotiated plans for the use of saving might be required.

making it impossible to manage his or her programs well, particularly when unexpected unemployment or other workload occurs.

2.3 Problem

Resource allocation methods used by the Secretary of Labor separately distribute funds for the Employment Service, the Unemployment Insurance program and overhead resources for both programs. The three allocation mechanisms utilize totally different methodologies and unintentionally create major disincentives to reduce staffing levels by implementing cost saving innovations, particularly automation efforts. Objective resource allocation is undermined by the disincentives to operate efficiently which are built into the current distribution systems.

2.3 Solution

Any federal mechanism or procedure which creates disincentives to cost efficient operations should be identified through extensive Congressional oversight. Procedures producing disincentives should be modified or eliminated as appropriate. States which have made serious efforts to automate should be rewarded by ensuring they have adequate resources to maintain and operate their automated systems. States which have been impeded from automating should be freed to complete their projects. Where a state has not begun serious automation efforts, immediate assistance should be made available to encourage such automation.

2.4 Problem

Overhead resources are distributed through a complex, mathematical model which allocates overhead funding primarily on the basis of the number of staff in the state agency. Therefore, states which are more labor intensive, relying less on automation (which has proven effective particularly in the UI program), are provided with more resources than those states which have taken serious steps to reduce their staffing. The model fails to recognize many fixed, long-term costs including long term leases and lease-purchase agreements. The model is also insensitive to the impact of a variety of state policies which govern the operation of state agencies. Beyond this, there are serious statistical flaws in the model which raise serious questions about its equity as a distribution system.

2.4 Solution

While the future use of the ASMT/NPS model for ES grants-to-states allocations is now moot, due to the passage of the allocation methodology for ES resources in the Job Training Partnership Act, immediate efforts to more adequately fund overhead costs in the UI program are urgently needed. It is particularly important that the emphasis be placed on the automation of routine UI functions which will yield reduced staffing requirements while improving program quality and service. Additionally, the basic allocation of UI overhead funds must recognize that premises and lease-purchase costs do not expand and contract in the same manner UI staffing levels do.

2.5 Problem

No serious effort has been made to determine the appropriate requirements for staff levels to operate a labor exchange in this nation. Employment Service staffing was arbitrarily held at 30,000 positions nationally between 1966 and 1981. In 1982, well over 5000 positions were cut from the Employment Service, leaving some states with the equivalent of 100 or less staff to serve the needs of the jobless in the entire state. While recent research has suggested that the ES positively contributes to the reduction in spells of unemployment, thereby reducing UI costs and increasing GNP, it remains a system under attack. New demands will be placed on it as the job training system is implemented, making it more crucial to define the optimal size of a nationwide labor exchange.

2.5 Solution

While the new allocation requirements for ES resources adopted in the Job Training Partnership Act certainly have improved the outlook for more stable, predictable allocations in the future, there is still the problem of the adequacy of the nation's labor exchange. A serious attempt to determine the staff required to adequately serve the nation's needs for a labor exchange must include the input of Governors, state officials and members of the employer community. Arriving at a consensus on the scope of the nation's labor exchange will permit rational development of a method for adequately financing this crucial part of the employment security system.

3. EQUITY ISSUES:

Employers, state administrators and Governors in a growing number of states are struck by the rigidity and complexity of the federal-state partnership which administers and defines the employment security system. This has led to serious study of the roles played by the state and federal partners, as well as the responsibilities each holds in operating these programs. In the search for methods which might simplify the current arrangements, several potential inequities in the system have been identified and debated in the last several years.

With regard to benefit trust funds, it has been suggested that housing the state benefit trust funds in the Unemployment Trust Fund, thereby subjecting it to the rules of the unified budget, provides no appreciable benefit to the states. Interest earning rates on U.S. Treasury funds have typically been lower than would be available in most states.

The location of the benefit trust funds in the Treasury also has artificially separated the responsible administration and management of both the taxing system and the funds it generates from the states. Far too often state action to improve trust fund solvency has only occured in response to Congressionally mandated modifications to state law. Conversely, federal managers of the state benefit trust funds have continued to ignore the impact of catastrophic unemployment in some states, requiring rather that each state be treated in isolation from all others and the nation. The plight of states like Michigan, Illinois, Ohio and Missouri during the recession of the early eighties, of Washington during the decline of the aerospace industry, and of Pennsylvania, Rhode Island and Connecticut since the mid-seventies, quickly bring recognition that sustained, high levels of unemployment are often beyond an individual state's capacity, particularly when the onset of such unemployment is sudden and unpredictable.

Similarly, analysis of the management and administration of FUTA funds has raised a number of questions. Insolvency in several federal accounts and the failure to adequately financing the administration of the state employment security system raises serious concerns regarding the role of the federal government as the manager of these funds. A number of studies suggest that federal employer taxes are a low priority concern for the IRS, resulting in less than vigorous establishment of federal employer tax accounts and collection of revenues owed. In addition, federal managers make basic operating decisions about the administration of state agencies for which they are neither responsible or accountable. State administrators conversely must serve two masters, the federal and state governments, and all too often find their directions from each are in conflict. And, in the last analysis, it is perplexing that those individuals who must take responsibility for management of state agencies are given next to no voice in setting the priorities or establishing the budgets for the programs they operate.

From the employer perspective, there are two specific concerns which add to the complexity of the equity issue. First, it is only private-for-profit employers who pay FUTA taxes, even though public sector and private non-profit employers and their employees are fully covered by the benefits and services of the system. Thus, the private sector is financing the administrative costs of the entire employment security system even though this system serves many individuals who have not previously been employed by the private sector. Second, the relative share of FUTA taxes attributable to a particular state's employers often bears little relationship to the amount of administrative grant funds the state receives to operate its programs. Obviously, some states receive more or less than their employers contribute, and recently this circumstance has resulted in considerable debate about how resources are distributed.

Several specific issues in this generic category are described below and solutions are suggested:

3.1 Problem

Recession experiences in the mid-seventies and early eighties clearly indicate that there are levels of unemployment which, if of a significant duration, incapacitate a state's benefit financing structure. It may not be desirable to require all states to build up reserves large enough to meet the costs of benefits which might become payable during future catastrophic recessions. If regional and national economic trends are examined, it becomes clear that groups of states suffer from the rippling effects of industrial declines.

3.1 Solution

When the risks of unemployment are products of regional and national trends, it seems likely that the costs of extraordinarily high unemployment should be spread among a larger group of tax payers than a particular state's employers, particularly for extended benefits. However, it will be important to differentiate between all employers in the nation, (i.e., the FUTA tax) and all tax payers (i.e., federal general revenue). Some sliding scale which uses the total unemployment rate (or IUR including EB claims) could be used to determine when either FUTA or general revenues should supplement the existing reimbursement formula for extended benefits. For example, when a state TUR reached 8.0 percent, the federal share of EB could be increased to 75 percent FUTA. When the TUR reached 10.0 percent, it could be increased to 100 percent FUTA. Above 10.0 percent, part of the federal costs could be offset with general revenue, rather than FUTA revenues alone.

3.2 Problem

The degree of separation of responsibility for the daily administration and management of the state benefit trust funds in the current system reduces state participation in decision making to a point which may be harmful to the system. Aside from the potential to discourage aggressive state actions when benefit trust fund insolvency is imminent or occurs, the current arrangement often results in across-the-board Congressional remedies which may not be suitable or desirable for all states. Essentially, federal law making becomes a means for instituting corrective action at the state level. This is not consistent with the philosophical basis of the federal-state partnership.

3.2 Solution

One potential solution to this problem would be to place state benefit trust fund in the state's control. This solution would assume strict federal requirements regarding fiduciary standards, and combined with a federal solvency requirement, would certainly place the responsibility clearly with the state for management, control and solvency of the benefit trust funds. Beyond this, state legislatures would not only be squarely responsible for both benefit and tax decisions, they would see their state benefit from the investment of trust fund revenues in the states.

3.3 Problem

Similarly, under current arrangements the majority of budgetary decisions are made solely by the federal partner, leaving the state manager with little or no say in the priorities or budgets for state employment security agencies. This results in an inability of the state manager to respond to the goals of state government, limits innovation and reduces flexibility within state agencies.

3.3 Solution

Without a doubt, the solution to this problem must include a significantly increased role for the state administrator in determining, justifying and defending a state employment security budget. In exchange for increased responsibilities, the state administrators must be provided more flexibility and control over the agency's budget.

3.4 Problem

Pooling FUTA funds nationally and then distributing them to the states to operate the system was intended to ensure that all states receive adequate resources to provide statewide employment security services. As a consequence of growing budget constraints, brought about by the increasingly inadequate level of the FUTA tax base and rate, the federal partner is now in the business of reducing state programs nationally. These decisions are occuring regardless of the growth in a state, the

3.4 Solution

If the current system is retained, immediate steps must be developed which will clearly establish a justification mechanism for the size and scope of the employment security system and which will adequately finance the programs which it must operate. This strategy will probably require increased federal taxation in order to adequately finance the programs the system will be required to administer. On the other hand, an alternative solution suggests that federal offset credit on the FUTA taxes be increased, need for services, or the levels of unemployment. In states with fewer than 100 ES staff, providing needed statewide job placement services will not be possible. And, the separation of the responsibility for administrative financing and budgeting from the locus of management eliminates the ability of the state manager to innovate, to modify operating plans, or to change course as workloads demand.

thus reducing federal taxes, and that states assume the responsibility for generating administrative funds to operate a defined employment security system. At the heart of this solution is an agreement between the federal and state governments regarding the components of an employment security program which each state must operate in order to be eligible for increased FUTA offset credits. Failure to maintain the basic programs would become, under this alternative, grounds for findings of non-conformity.

3.5 Problem

A serious consequence of the current system's arrangements is the emergence of employer dissatisfaction with the operational arrangements of the system. Whether a state's employers are concerned with inflexibility on the part of the state managers or the degree of their tax burden versus the return on their dollars, these kinds of debates threaten to further disable the system.

3.5 Solution

Private sector employers have financed the costs of this system for over 45 years. To assure their interests are served, Congress should include a complete review of employer recommendations for improving the system in the oversight process.

3.6 Problem

Private non-profit and public sector employment is equivalent to approximately 18 percent of covered employment. In the case of disadvantaged workers, they are frequently new entrants or re-entrants to the labor force with little recent attachment to private sector employment. The expansion of demands on the employment security system to serve the disadvantaged, displaced workers, and former public sector employees has made continued reliance on private sector financing less equitable.

3.6 Solution

Whatever the manner used to generate administrative funds, some efforts to require public sector employers to contribute to the costs of administration must be instituted. A potential means for accomplishing this goal would be to create a service charge to the employer for the provision of UI services to former employees of the public sector.

Ms. **Diener**. This is a further product for the four States who worked together and also Chambers Associates who have helped us start to identify some possible solutions to the problems that were identified earlier. So by submitting those we hope to get some alternatives onto the table for discussion and also make ourselves available to work further with your staff in these areas.

There were seven major problem areas that were identified. I am sure none of them will be of surprise to you or your subcommittee. They include high levels of State and Federal fund insolvency, loan repayment provisions for existing borrowers that are structured in such a way that States are not able to catch up with their obligations. Federal administrative and management systems that discourage efficiencies at the State level through the inclusion of disincentives for automation, redundant reporting systems and inflexible budgeting and allocation processes, inequities in the levels of funding between the private employers who pay FUTA taxes and the nonprofit employers who do not pay FUTA taxes and yet have the full benefits of the system's insurance and services. Also, the Federal Department of Labor's budgeting treatment of all States as being relatively similar, thus preventing States that have different characteristics and budget needs from reflecting those differences in budget process.

The inclusion in the FUTA system of unfunded enforcement programs that we feel might more logically fall elsewhere, such as housing inspection for migrant and seasonal farmworkers, certification of alien workers, and rural loan certifications. Finally, the possible annual loss of over $200 million as a result of Federal rather than State collection of the FUTA taxes.

Now, Mr. Chairman, in our problems and solutions paper we are putting forward for your subcommittee's consideration, a number of possible solutions to the seven problem areas I have just identified. I do not want to go into detail in all of those, but just to give you some examples, we do suggest some ways of improving the program solvency.

We support the idea that Federal standards should be established that would mandate the levels of funds that would have to be available in both the Federal and State funds to cover the normal demands of the system. As Dr. Fisher mentioned, however, we also recognize that there are some States that will continue to suffer extremely high unemployment of long duration, and those States would still need to find other ways of coping with this virtually catastrophic problem.

The only recourse for what we hope are the few remaining States then remains the general funds of the U.S. Treasury since such massive prolonged unemployment is a matter of national concern.

In regard to facilitating the repayment provisions, it is clear that past indebtedness has become so large in some States that they are content to continuously play catch up. We suggest and support the idea that the length of repayment time be extended and that the past debt be frozen with no new interest charged on it. We feel very strongly that no debt should be forgiven. Rather, we support making repayment of the principal more possible during periods of extreme economic difficulty.

States must be encouraged not only to repay past debts, but once the recession is over to rebuild benefit trust fund reserves, thus eliminating the need for borrowing in the future.

We recommend, therefore, placing the State benefit trust fund under the control of the States with a strict Federal requirement for solvency. This would place the responsibility for both benefit and tax decisions with the States and would eliminate what currently exists with confusion about whether the States actually have the responsibility for taking appropriate actions when they need to to adjust the tax structure and benefit rates.

It would have the further advantage, as Congressman Bliley stated this morning, of enabling States which already collect and disburse the funds to receive the returns from investing the money. We would expect, of course, the Federal Government to establish the standards of fiduciary responsibility. We have a number of other suggestions that are included.

I would say in conclusion that for most of its history the system has generated adequate financing and has met all of its obligations. Since the seventies, however, the disturbing trend toward insolvency at both the State and Federal level needs to be corrected. We are convinced that both Virginia and the Nation have arrived at a watershed period in our system's history, but we hope that by combining all of our efforts and certainly we have committed ourselves to the contribution of some solutions to these problems that we can all work to develop legislation that will reestablish sound fiscal footing for the employment security system.

We, therefore, are here representing Governor Robb in offering our assistance and our State's assistance to the subcommittee.

Chairman FORD. Thank you very much, Dr. Diener.

Mr. Moore.

Mr. MOORE. I thank Mr. Secretary and Madam Secretary for being with us. Joe, it is good to have you back before your old committee.

I was watching and read your statements very closely about what you are offering to be done, and certainly you heard the exchange from the States that are more in trouble than Virginia about what we are going to try to do on interest rates. But we have got to try to at the same time prevent the abuses of the past by having some kind of creative solution for helping States that are in trouble presently.

You are quite right, Joe, when you say that this recession is deeper than anything we have seen before. It is hurting States like they were not hurt before when they abused the system.

I am very, very concerned, however, that as we indicated that any formula we draw is one that really only helps those States who really deserve help and not every State. Virginia is a State, thank goodness, that is better off than most of these other States. Hopefully, I do not think a formula would include Virginia, quite frankly, or Louisiana or Tennessee. Our States really are not that bad off compared to Michigan.

But in any event, we certainly appreciate you all being here, and I look forward to receiving the input and working product of the Governor and the other groups that are working on this.

Thank you.

Chairman **Ford**. Mr. Moore, I, too, would agree that we are not as bad as those other States that you mentioned, but Virginia will the projected figures show that they will be borrowing about $5 million in 1983.

Is that right?

Mr. **Fisher**. We have a line of credit of $61 million, and we hope that will see us through, but we do not know. We have started to borrow for the first time. And as much as Congressman Moore, we do not want to be in that position any longer than we have to be.

Chairman **Ford**. Do you anticipate paying interest, or are you going to pay the loan back in nine months?

Mr. **Fisher**. We expect to pay it back in the 9 months, but if the recession is still going on with 10 percent or something unemployment nationally, we will be in the same predicament next January that we were this January. But we will pay it back out of the collections of the first two quarters this year.

But as I say, something has to give for the next year. Either we have to tax more, reduce benefits, or there has to be some transition into a clearly designated Federal system in situations of prolonged high level unemployment. And we would have to recognize the fact that already exists that it is the general funds of the Treasury that are rescuing I guess virtually all of the accounts and funds that are involved in this program.

Chairman **Ford**. Once again I would like to thank you, Dr. Fisher, as well as Secretary Diener, for testifying before the committee today.

Mr. **Fisher**. May I try one other point out on you, Mr. Chairman?

Chairman **Ford**. Sure.

Mr. **Fisher**. I hope the committee will address the problem that many States face of statewide not having a very high rate of unemployment or insured unemployment rate even, not high enough to get over various percentage standards that might be set. But many individuals are unemployed and unemployed for a long time, and I hope that in the midst of other things you think about you will recognize that what we are trying to do here is help unemployed persons as well as States with a lot of unemployment, our State like yours in fact, we share a border. And your high unemployment and ours tends to be in our eastern and our western part. And if that were a State by itself, it would be entitled to extended and supplemental benefits; but because of an association with Virginia and Tennessee, which generally are not in such bad shape, we do not meet the standards nor can we expect to.

We have 20 and more percent unemployment in some counties, as you do, so I would hope that as you work toward longer range solutions to problems you would give attention to the fact that there is more involved here than just what you see when you look at a State average.

Mr. **Ford**. Once again, I want to thank both of you. Mr. Moore, do you have any further questions?

Mr. **Moore**. Just very briefly, Mr. Chairman.

We tried that in 1981, Joe. We dug into that in the subcommittee and we had a devil of a time. All of us felt like you did. We ought to try to regionalize those tests to get into a state that did not break the barrier but had pockets of high unemployment. And we ran up against a stone wall in drawing reasonable guideline as to how you do that.

If you can give us information on how that could be done, we would sure try.

Mr. **Fisher**. We do have some ideas and would like the opportunity to send those to you.

Mr. **Moore**. Sure.

Mr. **Fisher**. But we are going to miss a lot of individuals who are suffering if our attention is almost exclusively given to the financial situation of State funds.

Mr. **Moore**. I understand. Also, Virginia, of course, has been lucky and the amount of borrowing it is going to do is relatively minimal. Likewise, the amount of interest you are going to pay is relatively minimal compared to the other states involved. And I would hope that you are not hoping to put Virginia in the category of those states, especially when you look at this morning's newspaper indicating your House refused to take action on delaying unemployment compensation benefits for a week, which my State just did in January.

My State had to do that to be able to balance its books, and your State may have to do the same thing rather than looking for us not charging you interest on the loan. But thank you both.

Mr. **Ford**. Thank you.

The Committee will call now Mr. Roger Bodman, the commissioner of the New Jersey Department of Labor, and also Mr. Buddy Adams, secretary of the Kentucky Department of Human Resources.

Mr. Bodman is with the Coalition of Northeastern Governors and is the commissioner of the New Jersey Department of Labor. He will be the leadoff witness, followed by Mr. Buddy Adams, secretary of the Kentucky Department of Human Resources. You may go in that order.

STATEMENT OF ROGER A. BODMAN, COALITION OF NORTHEASTERN GOVERNORS AND COMMISSIONER OF THE NEW JERSEY DEPARTMENT OF LABOR

Mr. **Bodman**. Thank you very much, Mr. Chairman.

If I may, I would just read some selected portions of my testimony and if I could ask that the entire——

Mr. **Ford**. Your entire text will be made a part of the record. That will be true for Mr. Adams as well and, without objection, to any other material you would like to submit for the record.

Mr. **Bodman**. Thank you.

My name is Roger Bodman. I am the Commissioner of the New Jersey State Department of Labor and I am here today representing Gov. Thomas Kean in his capacity as chairman of the Coalition of Northeastern Governors. The members of CONEG are extremely concerned about the financial burdens facing the State-Federal unemployment compensation program, which has been ravaged by the long period of recession.

As was discussed earlier, a number of States have enacted legislation designed to lead to solvency. Within the next week or two we in New Jersey will be doing the same by introducing a thoughtfully hammered out legislative package. It has been a challenge to put together such a comprehensive package that balances the wage replacement needs of claimants who are involuntarily unemployed and truely attached to the labor force with the desire to prevent employer tax increases from disrupting the State's job creation and economic development efforts.

We recognize that restoring solvency to our trust fund cannot be accomplished overnight. I can give you my personal assurance that reform of the unemployment insurance program is my utmost priority and one of the very top priorities of Governor Kean.

New Jersey, like other member States of CONEG, is committed to following sound management and financing practices for its unemployment compensation system. Most States have been demonstrating such a responsibility and urgency about dealing with this problem. They should not be handicapped by trying to simultaneously deal with punitive financial burdens and unrealistically severe cap requirements imposed by the Federal Government.

Therefore, and in conclusion, CONEG feels that under the harsh economic circumstances faced by the States, and in recognition of the efforts States have been making to restore solvency to their unemployment insurance systems, the interest provisions and those cap requirements that first go into effect in 1983 should be revised.

The attached resolution was introduced by Governor O'Neill of Connecticut and, Mr. Chairman, if I may, I think it is important, particularly in light of the testimony of the Governors this morning, just to discuss New Jersey's efforts and its history, which may provide a bit of insight to the subcommittee.

New Jersey was forced to borrow some $735 million in order to keep its trust fund solvent in the period from 1975 through 1978. The State made voluntary payments of $40 million in 1978, and $43 million in 1979. The loan repayment penality tax provisions were instituted, and in 1980 we paid $39.5 million at 0.3 percent. In 1981, we paid $91.7 million at 0.6 percent. In 1982, we expect to pay approximately $100 million at 0.6, and next year, due to the Federal wage base increase, that amount will go up to somewhere in the range of $110 million.

I think really what we are trying to say is that New Jersey has tried to be responsible about this and, in effect, the system has worked as designed. We made voluntary payments and we further made payments as required under the penalty tax provisions.

It is a difficult time to deal with such a problem, and I can assure you that I feel very strongly that the States do in fact have a responsibility for their own trust funds and for the systems that we are required to administer.

In conclusion, I would just like to say that I appreciate the opportunity to submit this testimony to the subcommittee and I would be happy to take any questions you would have.

Mr. FORD. Mr. Adams?

[The prepared statement follows:]

STATEMENT OF THE COALITION OF NORTHEASTERN GOVERNORS, PRESENTED BY ROGER A. BODMAN

Good morning. My name is Roger Bodman, and I am Commissioner of Labor for the State of New Jersey. I am here today representing Governor Thomas Kean of New Jersey in his capacity as chairman of the Coalition of Northeastern Governors (CONEG). The members of CONEG are extremely concerned about the financial burdens facing the state-federal unemployment compensation program, which has been ravaged by a prolonged period of recession.

As you know, the nation is currently in the midst of the deepest recession since the 1930's—one which began before the economy had a chance to recover from the 1980 recession.

Unemployment in the nation has hovered around the 10 percent mark for the past 8 months, and double-digit unemployment is projected throughout most of 1983.

The number of unemployed persons climbed by 53 percent between the July 1981 pre-recession level and December 1982.

During this same period, nonfarm job opportunities dipped by 3 percent and the nation's hard hit manufacturing industries suffered job losses of 11 percent.

The widespread decline in economic activity has created severe difficulties for the unemployment compensation systems of a great many states, not only in the northeastern and north central industrial belt, but also in the sunbelt and in the West. In some states, these systems were already in serious trouble before the recession. As of December, 23 states were in debt to the federal unemployment account for $10.6 billion. Six states, including some that never thought it would happen to them, received advances for the first time during 1982. Additional borrowing is anticipated for the year ahead.

Congress recognized the hardship that the repayment mechanism, with its escalating FUTA penalty taxes, would impose on employers in debtor states when it passed the Omnibus Budget Reconciliation Act of 1981. This legislation included a provision for "caps" on loan repayment to ease the burden on states with large debts. We in New Jersey were strong supporters of this concept, which we felt would buy us time to enact state legislation that would start us back on the road to solvency.

At the same time, however, stringent requirements were imposed as a condition for a state qualifying for the "cap." These criteria were designed to ensure that the solvency of a state's system would not be relaxed during the fund rebuilding period and to encourage states to enact legislative and administrative reforms to return their benefit financing systems to solvency. I won't dwell on these progressively more stringent requirements since I am sure you are well-versed on them. Suffice it to say that "capping" of the loan repayment effort for taxable year 1983 is restricted to those states:

First, whose projected tax rate for 1983 equals or exceeds its averge benefit cost rate for the years 1978 through 1982; and

Second, whose outstanding loan balance on September 30, 1983 does not exceed its level of indebtendness as of September 30, 1981.

As a result of the extraordinarily high benefit payouts during the past three recessionary years, the depleted reserves of many states, and the resultant new borrowing, only a handful of states will meet these requirements in 1983. Clearly, this does not fulfill the intent of Congress.

Escalating FUTA taxes resulting from the loss of the "cap" may well hamper a state's ability to permanently and rationally reform its own financing system.

CONEG is also deeply concerned about the interest provisions of the Omnibus Budget Reconciliation Act of 1981. Under that legislation, interest became payable for the first time on any new borrowing after April 1, 1982, other than short-term borrowing to meet a temporary cash-flow shortfall. For 1982 and presumably 1983, interest has been assessed at the rate of ten (10) percent.

This interest obligation comes at a time when states are trying to cope with mounting budget deficits, attributable in part to the same ecnomic slump that has caused the drain on unemployment insurance trust funds. The need to raise revenues to pay interest on new unemployment insurance loans simply aggravates this problem.

These requirements—eligibility for the cap and payment of interest—may have had some useful intent to induce states to get their benefit and financing systems in order. However, no one could have anticipated the severity of the recession that was just getting underway as the Omnibus Budget Reconciliation Act of 1981 was being signed. In retrospect, the timing of these new requirements was out of sync with the state of the economy.

States really has little opportunity under these recessionary conditions to get back on their feet. Belt-tightening measures by the states cannot be expected to reverse the impact of a severe cyclical downturn on unemployment insurance benefit costs and tax revenues. And I think all of us recognize that there is no harder time to tighten up on benefit provisions or raise taxes than when unemployment rolls and bankruptcy rates are the highest in decades. In addition, we should not overlook the countercyclical role of unemployment insurance, which some will argue is contradicted by raising employer taxes or lowering benefits at a time of recession.

Despite all these problems, the states have not been neglecting their fiscal responsibilities. A number of states have enacted legislation designed to lead to solvency. Within the next week or two, we in New Jersey will be doing the same by introducing a thoughtfully hammered out legislative package.

It has been a challenge to put together a comprehensive package that balances the wage replacement needs of claimants who are involuntarily unemployed and truly attached to the labor force with the desire to prevent employer tax increases from disrupting the state's job creation and economic development efforts. We recognize that restoring solvency to our own trust fund cannot be accomplished overnight, but I can give you my personal assurance that reform of our unemployment insurance program is my foremost priority and one of the very top priorities of Governor Kean. New Jersey like the other member states of CONEG, is committed to following sound management and financing practices for its unemployment compensation system.

Most states have been demonstrating a sense of responsibility and urgency about dealing with this problem. They should not be handicapped by having to simultaneously deal with punitive financial burdens and unrealistically severe "cap" requirements imposed by the Federal Government.

Therefore, and in conclusion, CONEG feels that, under the harsh economic circumstances faced by the States and in recognition of the efforts states have been making to restore solvency to their unemployment insurance systems, the interest provisions and those "cap" requirements that first go into effect in 1983 should be repealed.

SUMMARY OF KEY POINTS

The CONEG Governors urge the prompt repeal of two provisions of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, involving UI loan repayment: (a) The interest charging provision, and (b) The two criteria for eligibility for the loan repayment "cap" that first became effective in 1983:

That a state's average tax rate be equal to or greater than its previous five-year benefit cost rate; and

That the outstanding loan balance as of September 30 not exceed the outstanding balance for September 30 of the third preceding calendar year (or, for purposes of calendar year 1983, on September 30, 1981).

UNEMPLOYMENT COMPENSATION REPAYMENT PLAN

Whereas, the nation's economy continues to stagnate, the CONEG states are facing growing demand for unemployment benefits.

And, whereas several CONEG states, despite individual efforts to maintain fund solvency, have been forced to request advances from the Federal Unemployment Trust fund, in order to meet benefit claims.

And, whereas this new borrowing, which is now subject to a 10% interest charge, comes at the same time that individual state budgets are under increased pressures. The interest rate presents a great potential hardship with far reaching ramifications on the tax paying public of the entire region: Therefore, be it

Resolved, That the CONEG Governors urge the House Ways and Means Committee and the Senate Finance Committee to hold hearings early in the new session to review the states' efforts to meet unemployment benefits. We further urge Congress to repeal the interest charging provisions and additional freeze criteria effective 1983 and beyond of Public Law 97-35.

Adopted January 23, 1983.

STATEMENT OF BUDDY ADAMS, SECRETARY, KENTUCKY DEPARTMENT OF HUMAN RESOURCES

Mr. ADAMS. Thank you, Mr. Chairman.

Mr. Chairman, I came to Washington Sunday to attend another meeting in regard to the NACO conference, as well as the JTPA meeting that is going on with the regional liaisons today.

In visiting Congressman Perkins' office and briefing him on a problem that we have in Kentucky on our unemployment insurance and the interest that is going to be due in October 1983, he asked that I come down and briefly give some comments from Kentucky's standpoint that might be helpful for you and the committee in your deliberations.

In the fall of 1981, Mr. Chairman, Gov. John Y. Brown, Governor of the State of Kentucky, appointed a task force made up of labor and industry to look at the problem that we had on unemployment. We had about a $100 million a year problem. In other words, $100 million more was going out than was coming in.

In the 1982 session, the Kentucky General Assembly reworked the statutes in regard to unemployment insurance in the State of Kentucky. Industry in the Commonwealth of Kentucky had an additional $70 million a year to premiums. Labor in the Commonwealth of Kentucky gave up $30 million worth of benefits. That, according to our crystal ball, in the 1982 session of the general assembly would have taken care of our problem in Kentucky.

The IUR rate that was projected by the Department of Labor here in Washington stated that Kentucky should use a 4.7 percent IUR rate. The economics department at the University of Kentucky stated we should use a 4.9 percent. We used 5 percent and we thought that would take care of our problem and pay off our loan so that our employers in the State of Kentucky would not lose the FUTA tax credit in October 1983.

We have found that this has not happened. The IUR rate continued to go up and also the amount that we projected, the percent of IUR, increased about $12 million. Now it has cost us about $60 million for each IUR rate, from the standpoint we now have another $100 million problem in the Commonwealth of Kentucky.

Our projections state we will have $8.2 million of interest that will be due in October 1983. In our penalty and interest account we will probably have anywhere from $3.5 to $4 million that we can pay of that. Our problem is—October, November, December to—our general assembly meets in January 1984, which is about 3 months.

In our conversation with people in the Labor Department, they are stating and also according to our projections, gentlemen, that we will need to borrow money in February, March, and April of 1983. We will be solvent, according to our projection, until December 1983, and then we will have to borrow money again, according to the statute that was reworked this last session of the general assembly.

We are needing some relief, I guess, for a few months, or at least some consideration. The Labor Department stated that if the interest was not paid in October 1983 then the State of Kentucky—and I would presume it would hold true for all other States—would not be able to borrow any additional funds. Therefore, in December 1983, our people in the State of Kentucky would not have any unemployment insurance checks.

We think that we have addressed, as we knew it in January, February, March, and April 1982, the problems that we faced with the information we received from the U.S. Department of Labor, from our own people and our own forecasters. Gentlemen, the recession is much deeper than we anticipated. The unemployment rate in December was 10.8 percent and went to 11.3 percent in January.

We are needing this committee, in your deliberation, to give some consideration for extending or giving some type of repayment schedule on the interest where we can take a look at our statute in January and February and March of 1984 to address that problem.

I do not have a prepared text because I did not know I was going to be here, but I would be glad if the committee wants me to draft it in written form and submit it to the staff.

Mr. **CAMPBELL**. Thank you, sir. If you would like to prepare a statement, the record would be open to receive it.

I want to take just 1 minute to review and ask a couple of quick questions. I notice that Kentucky's wage base is $8,000 now.

Mr. **ADAMS**. Yes, sir. We increased it.

Mr. **CAMPBELL**. When did you do that, in 1982?

Mr. **ADAMS**. Yes, sir. In 1982, April of 1982.

Mr. **CAMPBELL**. And you are 1.9 percent, which is your unemployment tax on a percentage of total wages, is that right?

Mr. **ADAMS**. Well, it varies from 1.3 percent is the best rate that we have got.

Mr. **CAMPBELL**. But it averages 1.9 percent?

Mr. **ADAMS**. No, sir. It should be much higher than that.

Mr. **CAMPBELL**. We show a figure of about an average of 1.9.

Mr. **ADAMS**. You could very well be right.

Mr. **CAMPBELL**. That is of total wages.

Mr. **ADAMS**. We shifted in our statute, Congressman Campbell. We shifted. We increased the wage base and also the tax rate, but we shifted from the positive employers to the negative employers. We went from 6.7 percent was the highest negative employer to a 10-percent-negative employer, which the maximum, then, for an employer in the Commonwealth of Kentucky that are negative employers would be $800 per employee.

Mr. **CAMPBELL**. I would be glad to yield back to the chairman.

Chairman **FORD**. I know that States are having a difficult time qualifying for the cap on your FUTA tax increases, but what effect is this increased tax having on your ability to keep the businesses that you have already attracted to your State, as well as new businesses that you would like to attract to come into the State?

Mr. **BODMAN**. In our State, Mr. Chairman, as you know, we are repaying the loan by way of the 0.6 of a percent FUTA tax, penalty tax. Obviously, that has an impact. We estimate that the taxes, as I said, for 1982 payable in 1983 are approximately $100-million additional, and this has been in effect at the 0.6 rate for tax year 1981 as well as 1982, and it was at 0.3 in 1980.

Obviously it has an impact on employers. We in New Jersey, unlike most States, have a flexible wage base. Our wage base goes up every year. Last year it was $8,200 and this year it is $8,800. It is in effect what I would call shelf life built into the system for longevity, and we have a tax increase at the State level as a result of the increase of the taxable wage base each year.

It is obvious that I cannot answer the question directly. I do not have any figures available as to what the disincentives would be potentially to an employer. It is a fact, however, that our adjoining State, New York, which does not owe any money to the Federal Government does not pay the 0.6 of a percent and therefore, if one only looks at unemployment tax as a criteria, it would have somewhat of an economic development edge.

Mr. **Ford**. Mr. Moore?

Mr. **Moore**. Mr. Chairman, I thank both gentlemen for coming and sharing the problems of their State with us. I have listened closely to the comments and read the testimony of the gentleman from New Jersey, who had written testimony. I am willing to consider in exchange for the two Governors that came this morning some way of allowing you to continue to borrow or borrow interest on interest or whatever, as long as you are eventually going to pay back the loans.

Your two States are not real problem States now. They are to your State, but they are not in terms of comparing it to three or four of the other States we have got. As a matter of fact, your State is not having any worse problems than mine is and my State called a special session of the legislature because its regular session does not convene until April. They had a special session in January to address this issue. So that is something that can be done, providing the Governors of your States wish to do so.

But I think you know my strong feelings about the forgiveness of interest payments. I do not want to see States like New Jersey and Kentucky, which really do not have that long, bad, horrible history that Pennsylvania and Michigan have had coming in and getting on the same train that they will get on.

I just hate to say it, but I think that any amendment we draw is not going to be of help to you two, with the exception that I am perfectly amenable to allowing you to continue to borrow as long as you are going to pay the interest and even deferring, giving you time to schedule the repayment of that interest and the principal because we are in a deep recession.

But as far as forgiving it or forgetting it, I cannot go along with that, and I do not think that is really what you gentlemen are asking for. I think you are pointing out a problem, how you are going to repay it, and I am willing to address that.

Mr. **Bodman**. Congressman, speaking for myself, Governor Kean was inaugurated just about 1 year ago and, believe me, there was no one that was more dismayed than I to learn that we inherited a trust fund that was $612 million in debt to the Federal Government at that time. We have been acting as expeditiously as possible, given our difficult political and economic situation in the State, to reform the system, which I feel is long overdue.

We are steadily moving in that direction. I do think we have to keep an eye on what I am mostly concerned about, speaking for myself and on behalf of the State of New Jersey, is the potential that our State will increase from six-tenths to nine-tenths of 1 percent on that penalty tax.

As a result of the actions that were taken at the Federal level, the increase of the Federal wage base and the increase of the normal, FUTA tax from seven-tenths to eight-tenths, we estimate about a $50 million increase to our employers as a result of those actions alone.

As I pointed out earlier, we do have a flexible wage base in New Jersey. We went up $600, from $8,200 to $8,800, as I mentioned a moment ago, and that obviously goes up every year. Therefore, we have a built in tax increase, so to speak, in our system, even if we do not revise the tax charts, which we intend to do in our reform legislation.

So I do believe that we have been responsible. I am concerned most particularly about those provisions that would make New Jersey ineligible to retain the six-tenths of 1 percent level, because I think that would put tremendous tax burdens, particularly in light of the fact that we have introduced a piece of legislation to deal with the interest payments, which is, in effect, a tax surcharge on employers.

New Jersey, like most States, has got very severe budget problems. Governor Kean, in his first year in office, signed a cigarette tax, a sales tax increase, an income tax increase, and he just announced a budget for New Jersey that held 17 of his 20 departments at or below last year's level, my department included.

We are trying in our State to be fiscally responsible and I am most concerned about that aspect of it, if I could set a priority.

Mr. MOORE. I appreciate your comments. Unfortunately, we have been through this before and I do not foresee where the States are ever going to have no budget crises in the future. These are going to be tough times for some years to come because nobody wants to pay taxes and everybody wants services. So the States are constantly going to be fighting this drain on the resources. But it is particularly acute now, and I readily acknowledge that.

On the other hand, the reason why we have that provision in the law is to force states like yours to address the problem and if we turn right around and start waiving those things, the pressure is off and the legislators are very quick, just like Congressmen are, to bail out from under a President or a Governor if they think that somebody else is going to pick up the tab for them and they do not have to face the music and do what is tough and has to be done to put your house in order.

Mr. BODMAN. Congressman, in fact what I tried to point out earlier is I feel that our State has been responsible with regard to this loan. We, again, made two voluntary payments of a total of $83 million in 1978 and 1979 prior to the implementation of the so called penalty tax.

In effect, what I am trying to say is I believe the system is working. It was working with the cap provision at six-tenths of 1 percent, as they had been written in the past, and if it were not for the recession, severe recession, which particularly impacts a State like New Jersey and other industrialized urban type States, I do not think we would be in a terribly difficult situation. We would be paying back our loan and hopefully this would take care of the problem.

I unfortunately had to announce just a week or so ago that we have to borrow $130 million, something that, frankly, I am not terribly proud of. But the economic situation has forced us to do that. What I guess I am trying to say is that I believe the system had worked, and if the recession had not been so severe I do not think that I would be here asking for these changes.

Mr. **Moore**. Well, your state has a history, though, in nonrecession years of 1975, 1976, 1977, and 1978 that they continually borrowed money.

Mr. **Bodman**. In 1975 and 1976, those were recession years, Congressman, and I think we should point out and one of the problems is New Jersey during the decade of the seventies had an unemployment rate that averaged almost 2 percent higher than the Nation. Fortunately, this time we are almost the opposite. We are a point and a half to two under the Nation.

But during that period of time, and if one looks at the extended benefits program that was enacted by the Federal Government in 1971, it is my understanding that there was what was in effect a national trigger and as a result of our unemployment rate being 2 percentage points higher than the national average, the extended benefits program in New Jersey was essentially triggered on our entire decade from 1971 through 1981, with the exception of a period of about 9 months that caused a drain of almost $700 million of State funds.

Fortunately that issue has been addressed in more recent days. But if one looks at the history of our financing problems, that was clearly a contributing factor.

Mr. **Moore**. What is your unemployment rate now in New Jersey?

Mr. **Bodman**. As of December 8.3 percent.

Mr. **Moore**. That is the best time for your employers to shoulder a new tax. They cannot [illegible] you are going to run and jump off to Louisiana, where it is [illegible] 11 percent and the tax rates are already up. So now is the [illegible] you to take the action, really. You will not find a better time.

Mr. **Bodman**. As I [illegible] we have an increase in our wage base every year, which is [illegible] automatic tax increase.

Mr. **Moore**. Thank you [illegible] man.

Mr. **Adams**. Mr. Chairman, [illegible] om the standpoint of Kentucky on the loss of FUTA, we have not experienced this before, but we will in October 19[illegible]3 because our law is not bringing in enough revenue with the changes in April 1982. We are going to lose, of course, the three tenths of 1 percent the first year, which would be $20 million for employers. This year it will be $40 million.

We do not know what that is going to do to us in Kentucky from the standpoint of being competitive. I guess it is going to be what happens to our surrounding States. If they have lost their FUTA tax credit, then we are going to be equal in competition for the industry. We have tried to do things to continue to bring industry into Kentucky to be able to offset. We still have a job loss.

But also I think that and I know you are aware from your own area and your own region but it is not getting any better out there. From the standpoint of just giving you an example, in December 1982, on regular UI, in Kentucky we had 58,049. In January of 1983, regular UI was 85,701.

That is just a 1 month difference in time, and I am sure a lot of that gets down to employers probably during the holidays, Christmas and New Year's, were laid off, probably more so this time than in history.

Our average unemployment is 11.3 for the month of December it went up five tenths of 1 percent from November to December, also, like some of the other States, I think it was West Virginia stated that some of our counties have 5 percent unemployment, which is our best county, and that is in Lexington, Ky., up to as high as 30 and 31 and 32 percent in some of the coal fields and coal counties in eastern Kentucky.

One thing and I know it is not part of this committee but I would like to bring it up, if you would let me, regards work search. I cannot find it in the regulations or statute on work search, where 3 days—what our hearing officers are using—say on Tuesday, Wednesday, and Thursday you have got to go to employers for a job search.

If you go to two in one day, then you are cut off. That is the information we have received from the Labor Department. We have asked for a ruling on that to try to get some explanation on it, because for a lot of these people—and we have got some 72,000 were exhausted last year and we have got 73,000 that was the initial claim for January of 1983—this is the only income they have got coming in.

If they drive 30 or 40 miles into a community and they go to two work places and they get two assignments signed, they are kicked off because they are supposed to go each day for 3 days in a row. This is giving us some problems and it may not be in the jurisdiction of this committee, but since I had the opportunity, I thought I would bring it up, sir.

Mr. **Moore**. Mr. Chairman, let me comment on the comment the gentleman has just made from Kentucky. Don't let your employers buffalo you and your Governor and your legislature into thinking don't tax me or I will move on to another State.

If you sit down and look, every State around you is going through the same thing. This recession is deep enough that just the very bright States have escaped it. I know in Louisiana, in my State, we just got through raising the taxes and cutting the benefits to where nobody would come from any State to mine to get under a lesser tax burden.

Mr. **Adams**. We did the same.

Mr. **Moore**. So don't let them scare you into doing that, because those employers do not want to pay taxes, and they would love to have the Federal Government pay the unemployment compensation and they are going to try to buffalo you into believing that and even maybe blackmail and threaten you into believing that, and it is just a bluff.

If you run your State right and you have a fair tax burden and you are treating your employers right, and I am sure Kentucky is, then you do not have anything to worry about about putting your house in order on this situation. Don't let them make you believe that.

Mr. **Adams**. I think the Governor has tried to address that. For instance, in the first years of his administration he cut $1 billion out of our budget, using Federal and State funds without a broad based tax, and that is cutting back on employees and selling excess equipment and selling excess land and this type of thing.

And also, when we went to the employers, we brought the employers in on the task force with the labor and let them sit down and work it out. Now that is not very easy, if you have ever tried to do that before, but they did get together and we thought we had solved our problem to take care where we would not lose our FUTA credit, and we put a cap on the maximum that they could draw per week.

We even put a balance that we were shooting for. You stay at the highest rate that we have got to get the $140 million plus. If you ever drop down below $140 million, you would kick back into the high rate to keep a solvent fund. So they stood up and they took their medicine and they addressed the issue. Congressman, the recession just went much deeper than anyone anticipated.

Mr. **Moore**. That has happened to a great number of States, like well over 30 have gone through the same drill you have been through. But business and labor is going to have to take a share of the cuts. In our State we cut benefits dramatically. We were third in the Nation in benefits at one point, and now we had to cut ourselves way back. We were too fat and the system was going bankrupt because of that.

Likewise, the employers took a 20-percent increase in their taxes to cover it, and I think you are going to find that you could do the same thing in Kentucky when the time comes, next spring when your legislature meets, and the same thing in New Jersey.

Mr. **Adams**. If we could just get a little relief in October of 1983, I would appreciate that.

Mr. **Moore**. I am in agreement with giving you more time to pay it, but to pay it.

Mr. **Adams**. We do not have any problem with that—at least I do not—but I am not speaking for the Governor.

Chairman **Ford**. Mr. Secretary, I have heard from members of the Kentucky delegation in relation to the job search. I have been in contact with the Labor Department and we are communicating with them, and I want you to know that your delegation has been in contact with the chairman of the committee and we would like to thank you, Mr. Secretary and Mr. Commissioner, for both testifying before the committee today.

The committee will recess until 2 p.m. this afternoon. At such time we will hear from Commissioner Ball from the Social Security Commission dealing with the SSI provisions which we would have jurisdiction on in this subcommittee. So we will recess until 2 p.m. this afternoon.

[Whereupon, at 12:40 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

[The following was submitted for the record:]

STATEMENT OF HON. LES ASPIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

UNEMPLOYMENT COMPENSATION PROGRAM NEEDS REVISION

Unemployment in Wisconsin, as elsewhere in the Nation, stands at an alarmingly high rate. In Wisconsin in December, the seasonally adjusted unemployment rate was 11.7 percent. That translated into 285,700 who were unemployed. The unadjusted unemployment rate of 12.2 percent, which translates into 300,900 people unemployed.

Because of this record unemployment, Wisconsin's unemployment compensation fund is depleted, Wisconsin took in some $280 million in payroll taxes from employers last year for the unemployment compensation fund while paying out more than $600 million in benefits. The State has had to borrow heavily from the Federal Government to make up the difference. Wisconsin now ranks 6th among the States in the amount owed to the Federal Government for unemployment compensation benefits.

The "good news," if there is to be any found in these statistics, is that Wisconsin's insured unemployment rate (IUR) went above 6 percent during January 1983, thereby making Wisconsin eligible once again to trigger onto extended benefits. Wisconsin triggered off the extended benefit program December 11, 1982, when the insured unemployment rate in the State fell below 5 percent. This meant that thousands of Wisconsinites lost the 5 weeks of extended benefits they would have received in addition to the 34 weeks of benefits that Wisconsin normally pays.

The other "good news" tied into Wisconsin's exceeding a 6 percent IUR in January, is that Wisconsinites taking part in the Federal supplemental compensation program will now be eligible for 6 additional weeks of benefits rather than the 4 that Wisconsinites were originally entitled to under the FSC program. I realize that you have heard these bleak statistics from many witnesses and that we need to discuss remedies to the problem and not just the problem. Therefore, I will offer some suggestions for at least alleviating the problem if not completely solving it.

PROBLEMS WITH CURRENT EXTENDED BENEFITS PROGRAM

The Federal Government will help a State to pay for 13 weeks of extended benefits when a State's IUR exceeds 5 percent and is at least 20 percent higher than the same week in the 2 previous years, or if a State's IUR exceeds 6 percent.

The insured unemployment rate measures only the unemployment of persons who are covered by the State unemployment compensation law and who are receiving State funded unemployment compensation benefits. It does not count those workers who have exhausted their regular benefits and are claiming extended benefits or are claiming FSC benefits. It also does not count persons who have not worked enough to receive any benefits during the current benefit year.

Therefore, people who have been out of work long enough to exhaust their regular UC benefits are not counted in determining whether a State qualifies for EB. Because of these rules and definitions, Wisconsin was ineligible for extended benefits in December while, at the same time, it was experiencing its highest unemployment rate since the end of World War II.

The insured unemployment rate is simply a measure of those people who are insured and who are receiving unemployment compensation benefits. In no way is it an accurate measure of the unemployed in a State. For the Federal Government to trigger the payment of extra benefits based on a figure that does not take into account the most needy is ludicrous. In a lengthy recession, such as we are currently experiencing, the insured unemployment rate does not give the Federal Government an accurate reading of the most needy States.

I feel that the extended benefits trigger should be keyed to the seasonally adjusted unemployment rate for a State. If a State's seasonally adjusted unemployment rate exceeds a certain level (say, 8 percent) then that State should be eligible for extended benefits. Under the present system, the States suffering the most extended long-term unemployment are becoming ineligible for extended benefits.

It should be noted that the extended benefit program can actually turn out to be less expensive for the Federal Government than paying benefits under the FSC program. Under the EB program, recipients receive 50 percent of their benefits from the State and 50 percent from the Federal Government. Under the FSC program, recipient receives all of his benefits from the Federal Government. If Wisconsin had been eligible for the EB program during this period of time and before the FSC program expires on March 31, many of the Wisconsinites who are now receiving FSC benefits would have been receiving EB benefits instead. Those benefits would have been paid for partly by the State of Wisconsin rather than completely by the Federal Government.

EXTENSION OF FSC PROGRAM

The FSC program is due to expire March 31, 1983. The program has been very helpful to many of the long-term unemployed in Wisconsin. However, because only those who were receiving benefits after June 1, 1982, are eligible to receive FSC benefits, the program has been frustrating to those who have been laid off the longest. Because many of the long-term unemployed have been diligently looking for work when there is no work to be found, I would propose that the eligibility date for the FSC program be backed up from June 1, 1982, to January 1, 1982. Thus, anyone whose unemployment benefits expired after January 1, 1982, would be eligible for the extended FSC benefits.

While simply extending the expiration date for the FSC program beyond March 31 will help certain unemployed people whose regular UC benefits will be expiring this year, it will not help the long-term unemployed who have already used up their 10 to 16 weeks of FSC benefits. Thus, if Congress is serious about helping these long-term unemployed, there must be additional weeks of FSC benefits approved, as well as an extension of the deadline of the FSC program.

JOB SEARCH REQUIREMENTS

One of the requirements for those who are seeking unemployment compensation benefits from the Federal Government is that they continue a "systematic and sustained" search for new employment. While it is certainly sensible to ask the unemployed to look for new employment, too strict enforcement of such a requirement can actually cause more problems for the unemployed.

I have been contacted by the head of the Wisconsin Department of Industry, Labor and Human Relations and have been advised that employers in Wisconsin are rebelling against unemployed workers who are attempting to comply with these Federal work search requirements and are harrassing the employers. The employers simply do not have jobs to offer and yet the unemployed workers, to comply with Federal rules, have to keep looking for work. There are only so many employers to contact within a certain area of the unemployed worker's home. Thus, certain employers are asked repeatedly for jobs even though they have none and have not advertised any. Some employers refuse to cooperate with the unemployed workers by providing them with written evidence of their job search. This further antagonizes and depresses the unemployed workers who then have no evidence to present to the Job Service Office and who must then contact still another employer who has no jobs to offer.

In any new legislation to deal with extended benefits or Federal supplemental compensation, I believe the job search requirements should be discussed. Considering the prolonged deep recession, special note should be made in the legislation and job search rules should be relaxed for a period of time. We want the unemployed to keep seeking employment. However, we do not want employers to feel so harrassed that they refuse to cooperate with Job Service Offices in the future.

SUMMARY

The recession is deep, unemployment is high, and there are no indications that unemployment will improve dramatically during the next 10 months. Thus, the Federal Government must continue to make special provisions for the long-term unemployed.

I favor changing the triggering mechanism for the extended benefits program so that the trigger figures more accurately reflect the unemployment rates in the States. The current trigger, which uses the insured unemployment rate, is totally inaccurate and ends up making States with severe unemployment problems ineligible for extended benefits.

Because there are no signs that unemployment will improve in the near future, the Federal supplemental compensation program must not be allowed to expire on March 31. However, simply extending the expiration date for the FSC program will not solve problems of the unemployed. Additional weeks of benefits must also be provided for those who have already used up all their weeks of eligibility under the FSC program.

Job search rules must be relaxed because of the current economic situation. Causing the unemployed to seek employment from those who have no jobs to offer is a waste of the unemployed's and the employer's time and resources. Special job search rules should be developed for this economic climate.

Thank you for allowing me to submit my comments on public assistance and unemployment compensation.

STATEMENT OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

The Associated General Contractors of America and its 112 chapters nationwide is comprised of approximately 32,000 firms including 8,500 of the nation's leading general contracting companies that perform more than $100 billion of construction annually; our member firms normally employ some 3,400,000-plus workers, a significant portion of our national labor pool.

We appreciate the opportunity to submit this statement regarding jobs creating proposals and unemployment. Our industry, more so than any other single industry, knows only too well the unemployment problems that burden our nation -- 1.2 million construction workers are presently unemployed. This represents almost 25% of the work force of the nation's largest industry. Construction currently accounts for some $230 billion of our Gross National Product, directly employing 3.8 million people, and indirectly employing an additional 16 million people in construction supply industries such as cement, glass and steel, insurance, architecture and engineering. However, unlike the recent past, when construction accounted for 10 percent of the Gross National Product (GNP), today's level represents less than 8 percent of the GNP and a sharp drop in the number of people at work on construction sites. We are of the belief that the industry's declining share of GNP is directly related to our nation's current economic concerns.

Labor Intensity

Relief for the unemployed is obviously a complicated issue. There are a multitude of choices and each has a different potential impact on the employed, unemployed, the deficit, and the nation's economy. We have hopefully learned, that relief aimed at removing individuals from the unemployment rolls is only a temporary resolution. The best alternative is to develop programs that provides opportunities for the unemployed to work at jobs which fulfill a legitimate and lasting need within our industrial framework.

Any examination of jobs creating proposals should always conform to the axiom that the most cost effective alternatives should be the most attractive. We realize that a labor intensive approach is generally recognized as a measure of an industry's ability to employ maximum numbers of workers. We believe that the concept of labor intensity is key to any jobs creating proposals. However,an industry's ability to generate jobs internally as well as other industries should be the overriding criteria any jobs creating proposals. The type of industry which can generate this multiplier effect sould employ not only individuals within that industry but also create a series of jobs in related industries. In this respect, the products and service consuming construction by contract industry has the greatest potential to accomplish the objective in a cost effective manner.

The critical concept here is that job stimulation in the right industry can create several jobs in other related industries. The greatest cost-effective, result, occurs not simply when an employer's salary dollar creates a job, but when a job creates the necessity for other jobs within the economy.

A very concrete example of the significance of an industry's multiplier effect in relation to job creation, is construction by contract. Tables 1 & 2 are recently published Bureau of Labor Statistics data which clearly demonstrates the products consuming nature of the construction industry. As Chart #1 illustrates, construction generates more direct and induced jobs within the economy per dollar spent, than such industries as manufacturing, communciations, mining and transportation and many others. When total expenditures are considered, the amount of spending and capacity to generate jobs within construction creates a most favorable jobs creating climate.

That same logic applies to potential annual cost savings and generated revenue from increased social security benefits, increased federal income tax, and reduced unemployment to be gained from stimulating the construction industry. As an illustration, Table #3 describes the annaul savings and generated revenue from an infrastructure rebuilding program of $61.6 billion. It clearly indicates that construction jobs create income which generates tax revenues and reduces public assistance.

Jobs and Infrastructure Needs

It is estimated, on a very conservative basis, that a construction program to meet the infrastructure needs of the United States would result in the employment of 650,000 onsite construction workers annually, with another 843,000 jobs created offsite within the construction industry and in manufacturing and service supply industries. A majority of these jobs can be filled by currently unemployed workers, and with that stimulus many additional individuals will have the opportunity to be added to the workforce, especially when economic recovery provides more positions within the industry. These conservative estimates are based upon identified requirements for infrastructure rebuilding of $61.6 billion per year sustained for five years, with some programs projected to extend for 20 years.

Infrastructure needs for highways, bridges and airports require outlays of $28 billion per year which could generate 305,200 jobs. Congress, in passing the Surface Transportation Act of 1982, recognized the need and jobs creating ability of such programs.

There are other pressing needs. Mass transit and railroad needs require $13.1 billion and could generate 142,790 jobs. Improvements are also needed in systems relating to water/supply distribution, dams and locks (also transportation-related) and sewage treatment. Estimates of job creation for these categories range from 51,150 for water supply/distribution projects to 61,750 for sewage treatment facilities and have a $5-7 billion price tag. Public buildings, the other major category of infrastructure needs, requires annual expenditures of $1.9 billion, which could result in 18,430 jobs.

The number of potential employment opportunities associated with each type of infrastructure program is contained in Table III. These figures are based on known current needs. There are many elements of the infrastructure that have not yet been surveyed; there are constantly deteriorating components of the infrastructure, which have not yet been included and finally, and normal economic expansion has not been considered as the estimates were developed.

Our economic system depends on our ability to expand. Individual communitities need to expand basic elements of the infrastructure to attract new industry. In short, the infrastructure needs of the nation are not simply long term. They are entirely open ended and constant. There is absolutely no question that rebuilding the nation is a job that must be accomplished.

Maximum Monthly Earning

With respect to any proposed legislation, we believe a broader approach needs to be applied if an earnings maximum is considered. Any reasonable limit on employee wages, must address itself to the fact that work in many industries is of a seasonal nature and that, of necessity, employees often may earn more than a monthly maximum. Also paramount in any consideration should be the broader multiplier effect. Any maximum level, if necessary, should not ignore the fact that many members of the middle class are unemployed.

Federal Supplemental Compensation (FSC) Program & Job Vouchers

The FSC system is currently set to expire on March 31, 1983. AGC prefers that the monies spend on FSC be funneled to private sector job-producing programs to rebuild America's deteriorating infrastructure. In this time of limited government resources, we believe that it is more important to fund these needs thereby creating substantial private sector employment opportunities, than merely to continue a wage-replacement program which produces no long lasting results.

However, we also recognize that these are unusual and difficult times, and suggest that if Congress does continue the FSG program for an additional six months, a variety of measures recently recommended by the Administration to improve the operation of the system be included. Among the positive changes recommended by the Administration is the replacement of the current 5-tier approach for determining the length of FSC benefits in a given state by a more simple 3-tier approach. In addition, a 30 work-week requirement (instead of the current 20 weeks) for recipients of FSC benefits would ensure that only the most deserving individuals receive these general-revenue supported benefits. Finally, the provisions which would bar FSC benefits to those who voluntarily quit or who were fired for good cause would serve to insure that individuals do not leave their current position simply because of the availability of long term UC benefits under the FSC program.

Turning to a voucher system contained in several proposals, AGC has numerous concerns. Although several proposed voucher systems may provide benefits to employers in certain industries, it would become an administrative nightmare for industries such as the construction industry, which traditionally have experienced a high degree of employee turnover. In addition, the benefits of a voucher system whould not be available to employers who had employed the individual at any time during a specified base period. In order to achieve the full benefit of the system, the employee would be required to remain on the payroll of the employer for a full year. Such proposals would severely limit any advantage construction industry employers could gain by hiring an FSC recipient given our industry's high employee mobility and turnover.

Unemployment Compensation (UC) and Structural Unemployment

While AGC perceives many administrative problems in applying a voucher system to the FSC program, we recognize that utilizing FSC indirectly to support private employer training efforts, is preferable to using employer-generated unemployment compensation (UC) funds for this purpose. We would therefore oppose those elements in recommendations currently under consideration which would finance training programs directly out of employer-generated UC tax payments. We believe that using employer-generated UC taxes for training purposes is inappropriate, because (1) it would create an additional burden on the UC system at a time when its financial resources are already hard-pressed, and (2) it would incorporate into the UC system a component which is not consistent with the purpose of UC funds: the short-term supplement of wages due to cyclical unemployment.

The UC system was not designed to be a welfare system, nor was it designed to deal with problems created by structural unemployment resulting from basic changes in the nation's economy. In fact, one could argue that the experience component utilized in establishing an employer's UC tax obligations would be undermined if funds he pays are used for the training of unemployed individuals for new, alternative careers. We further believe that Congress has already enacted legislation, the Job Partnership Training Act, which provides a vehicle for such retraining.

While several suggestions have been recommended to ameliorate these problems such a plan would create (including proposals to bar debtor states from utilizing UC funds for training, and to require the establishment of a separate UC training fund), these suggestions do not overcome the basic problem of funding training programs through UC funds as outlined above.

Conclusion

We believe that a great opportunity exists to address our nation's unemployment ills without the necessity of creating a new employment program, while at the same time addressing another national ill--the deteriorating condition of our nation's infrastructure. That opportunity exists in using established federal, state and local public works programs to 1) reverse the deterioration of our nation's infrastructure and 2) provide productive employment in the process.

The vehicles, methods and procedures of public construction programs entailing competitively bid contract construction to the private sector are already in place--they only need adequate funding to be employment effective. Let me repeat: the needs are evident. The work forces are available. All that is lacking is funding to meet both needs.

AGC believes that an effective program to deal with the nation's infrastructure needs should and can be an integral part of addressing our nation's unemployment problems. It is beyond question, and very timely today that such a program will create employment for millions of workers and stimulate the economy to recovery and growth.

America's manufacturers of steel, glass, plastics, fibers, pipe, cement, wire and paint are just some of the industries that are absolutely dependent on a vibrant goods consuming construction industry -- an industry which, with the other industries dependent on its good health, is responsible for more than 20 percent of American employment. Construction is the engine that drives the rest of our economy. When the construction industry is provided with the funding stimulus it needs, and which government at all levels must provide or risk the total disintegration of our public facilities, the construction industry will lead America to real economic recovery.

TABLE 1

Percent distribution of construction contract costs, all construction studies, 1958–76

Type of construction and year	Total contract costs	Onsite wages and salaries	Materials, supplies, and built-in equipment	Construction equipment	Overhead and profit[1]
Commercial office buildings:					
1974	100.0	26.7	42.2	2.7	28.5
Elementary and secondary schools:					
1972	100.0	28.2	44.4	2.1	25.3
1965	100.0	25.8	54.2	1.0	19.0
1959	100.0	26.7	54.1	1.4	17.8
Federally aided highways:					
1976	100.0	23.8	46.7	(2)	29.5
1958	100.0	23.9	50.6	(2)	25.5
Federal office buildings:					
1976	100.0	25.8	42.5	2.9	28.8
1973[3]	100.0	34.0	50.0	(4)	16.0
1959	100.0	29.0	51.3	1.9	17.7
College housing:					
1972[3]	100.0	36.0	51.1	(4)	13.0
1961	100.0	29.3	52.6	1.6	16.5
Civil works, total:					
1972[3]	100.0	26.0	29.0	22.0	22.0
1960	100.0	29.1	26.2	22.1	22.6
Land projects:					
1972	100.0	25.0	32.0	20.0	24.0
1960	100.0	26.0	35.0	19.3	19.7
Dredging projects:					
1972	100.0	30.0	24.0	28.0	19.0
1960	100.0	32.3	17.3	24.9	25.5
Sewer works, total:					
1971	100.0	24.7	40.7	11.5	23.1
1963	100.0	25.3	46.6	9.9	16.2
Lines:					
1971	100.0	24.3	35.2	16.7	23.8
1963	100.0	24.3	44.5	11.2	20.0
Plants:					
1971	100.0	25.2	47.0	5.6	22.2
1963	100.0	26.6	49.2	8.2	16.0
Private multifamily housing:					
1971	100.0	27.9	44.2	3.0	24.8
Private single-family housing:					
1969[5]	100.0	20.4	43.4	.9	35.3
1962[5]	100.0	22.1	47.2	1.0	29.7
Public housing:					
1975[3]	100.0	32.7	48.7	4.4	14.2
1968	100.0	32.4	41.9	1.5	24.2
1960	100.0	35.5	45.0	2.5	17.0
General hospitals:					
1966	100.0	29.6	50.4	1.3	18.7
1960	100.0	28.2	53.2	1.2	17.4
Nursing homes:					
1966[6]	100.0	28.7	53.7	1.2	16.4

[1] Includes offsite wages, fringe benefits, construction financing costs, inventory, and other overhead and administrative expenses as well as profit.

[2] Equipment included with overhead and profit.

[3] Estimated.

[4] Equipment included in materials.

[5] Includes selling expenses.

[6] Estimated. Based on case study.

NOTE: Detail may not add to totals due to rounding.

Source: Labor And Materials Requirements For Federal Building Construction, U.S. Department of Labor, Bureau of Labor Statistics, January 1983.

TABLE 2

Percent distribution of cost of materials, supplies, and equipment by product group, all construction studies, 1958–76

Type of construction and year	Total materials, supplies and equipment	Mining and quarrying of nonmetallic minerals, except fuel	Lumber and wood products, except furniture	Furniture and fixtures	Chemical and allied products	Petroleum refining and related products	Stone, clay, glass, and concrete products	Primary metal products	Fabricated metal products[1]	Machinery, except electrical	Electrical and electronic machinery, equipment, and supplies	Construction equipment (rental value and depreciation)	Material and supplies, n.e.c.
Commercial office buildings:													
1974	100.00	0.67	7.55	0.42	0.99	1.98	23.90	12.55	22.21	11.43	7.62	5.90	4.69
Federal office buildings:													
1959	100.00	.41	3.31	.34	1.03	.88	21.60	7.32	32.81	6.91	18.20	3.59	3.61
1973	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
1975	100.00	.49	2.31	.41	1.10	1.11	22.61	20.82	19.33	10.65	10.11	6.52	4.56
Elementary and secondary schools:													
1959	100.00	.83	9.90	1.50	1.41	2.02	24.99	13.07	26.78	2.47	9.27	4.04	3.74
1965	100.00	1.62	9.13	2.90	.96	2.27	24.67	11.68	24.41	5.30	8.78	4.45	3.83
1972	100.00	.85	6.09	3.67	1.41	1.72	20.15	11.03	24.06	7.71	12.32	4.52	6.47
Private multifamily housing:													
1971	100.00	1.34	18.67	3.89	2.21	1.74	22.12	8.85	15.59	3.72	9.36	6.51	6.00
Private single-family housing:													
1962	100.00	.79	40.05	–	2.22	2.30	23.58	5.50	14.60	.46	6.49	2.03	1.99
1969	100.00	.89	37.40	3.28	1.82	1.80	21.33	5.05	12.90	1.90	6.77	2.00	4.87
Public housing:													
1960	100.00	.80	14.10	.30	1.80	1.70	27.10	8.00	28.50	2.30	8.40	5.30	1.80
1968	100.00	.80	14.40	.30	2.00	2.20	24.70	9.20	27.20	2.50	11.30	3.50	1.80
1975	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
General hospitals:													
1960	100.00	.42	4.16	.86	.81	.97	18.98	6.82	35.05	8.48	15.60	2.06	5.89
1966	100.00	.51	4.66	.44	.77	.80	18.40	8.61	31.11	12.11	15.62	2.50	4.47
Nursing homes:													
1966[4]	100.00	.53	9.06	.27	1.24	1.82	20.16	6.23	33.32	11.03	10.78	2.15	3.41
College housing:													
1961	100.00	.78	10.67	1.70	1.18	1.05	25.78	6.11	33.90	2.92	11.36	2.94	1.62
1972	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Federally aided highways:													
1958	100.00	11.34	1.76	–	.80	17.09	16.77	–	19.48	–	–	(3)	32.75
1976	100.00	12.42	.85	–	.97	17.58	14.04	–	21.22	–	–	(3)	32.92
Civil works:													
Land projects:													
1960	100.00	17.46	4.15	–	3.87	12.65	9.09	1.33	13.20	.59	.24	35.39	2.05
1972	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Dredging projects:													
1960	100.00	–	–	–	3.93	28.07	–	–	1.49	1.40	–	58.98	6.13
1972	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Sewer works:													
Lines:													
1963	100.00	4.65	.79	–	.36	3.02	55.87	8.79	2.39	3.02	.74	20.19	.20
1971	100.00	3.43	1.53	–	1.14	4.82	40.77	7.38	2.20	4.48	1.03	32.22	1.00
Plants:													
1963	100.00	2.27	1.64	–	.98	1.85	16.78	14.48	13.16	22.34	9.51	14.25	2.75
1971	100.00	1.11	2.46	.22	.87	1.25	15.62	11.22	13.87	33.51	6.72	10.59	2.54

Includes vitreous china plumbing fixtures except for Federally aided highways, private office buildings, elementary and secondary schools (1971), and single-family and multifamily housing.

[2] Not available.

[3] Construction equipment estimate included in materials and supplies, n.e.c.

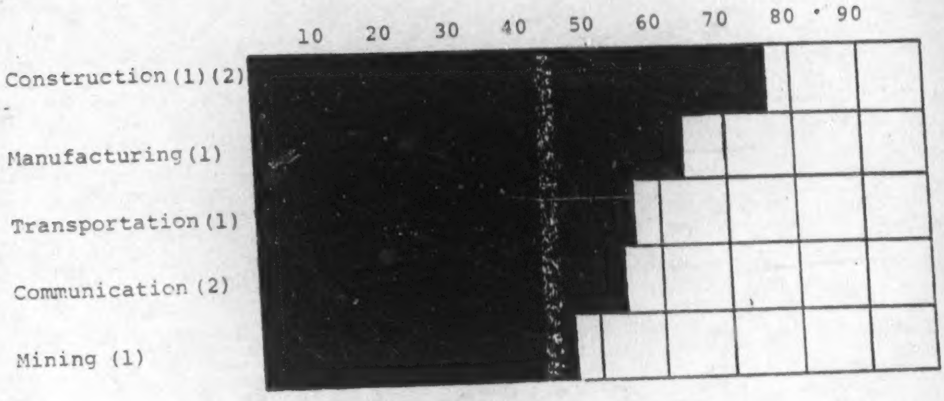
[4] Based on case study.

NOTE: Detail may not add to totals due to rounding. Dash denotes that the survey had no sample projects in this cell.

Source: Labor And Materials Requirements For Federal Building Construction, U.S. Department of Labor, Bureau of Labor Statistics, January 1983.

CHART #1

Industry Comparison of Jobs Creation Impact For $1,000,000 in Expenditure



(1) Median Comparison
(2) Average Comparison

Chart is based on unpublished Bureau of Labor Statistics Data (Office of Economic Growth). Takes into account Direct, Indirect and Induced jobs, and was measured in 1972 dollars and modified to consider industry productivity increases or decreases.

TABLE III
POTENTIAL ANNUAL COST SAVINGS AND REVENUE GENERATED from Infrastructure Rebuilding Program

	On-Site Craft Jobs	Off-Site Construction & Other Industries	Total
Increased Social Security Payments	$1,651,000,000	$1,514.000,000	$3,165,000,000
Increased Federal Income Tax	$1,603,000,000	$1,470,000,000	$3,073,000,000
Reduced Unemployment Compensation Payments	$1,153,000,000	$1,329,000,000	$2,482,000,000
TOTAL	$4,407,000,000	$4,313,000,00	$8,720,000,000

Annual income used to develop the table has been estimated based upon the average hourly earnings of the mix of construction, manufacturing and transportation jobs created. These were applied to a work year of 1,900 hours. Estimated average annual income for construction workers is $18,886 and for other workers is $15,029.

All figures are based upon 1980 data. This was most comparable to the expenditures estimated and, in most cases, was the most current data available. It is believed that changes in the current tax structure which have the effect of lowering income tax receipts and increasing social security tax receipts would not materially effect the total revenue from these sources. Adjusting unemployment compensation payments for current dollars would increase the amount on the table an estimated 15 percent.

There are other lesser revenues that would be generated for government that have not been considered. Among these are state and local taxes, corporate income taxes at all levels, and food stamps and other forms of public assistance.

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